# Update

## ON QUÉBEC'S ECONOMIC AND FINANCIAL SITUATION

## FALL 2009

OCTOBER 27, 2009

Finances Québec

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Fall 2009

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# HIGHLIGHTS

Today, the government is releasing its fall update on the economy and public finances. Since the 2009-2010 Budget was tabled last March, Québec's economy has continued to lose ground and has had to deal with a deeper global economic recession than anticipated. Nonetheless, the situation began to stabilize during the summer and the economy is showing signs of recovery. Most experts expect a gradual return to growth late this year and in 2010.

Supported by the two-year $15.5-billion economic action plan the government has implemented, Québec's economy has not suffered as much from the recession as its major trading partners, either in economic or financial terms.

Moreover, as indicated in the budget, Québec's financial situation will suffer from the repercussions of the recession. While the government will be adjusting its revenue downward, it will have to deal with the additional cost of the vigorous measures taken to support employment and maintain funding for public services. The anticipated deficits for this year and next will thus be higher than forecast, though proportionally lower than elsewhere. Accordingly, for 2009-2010, compared to the last budget:

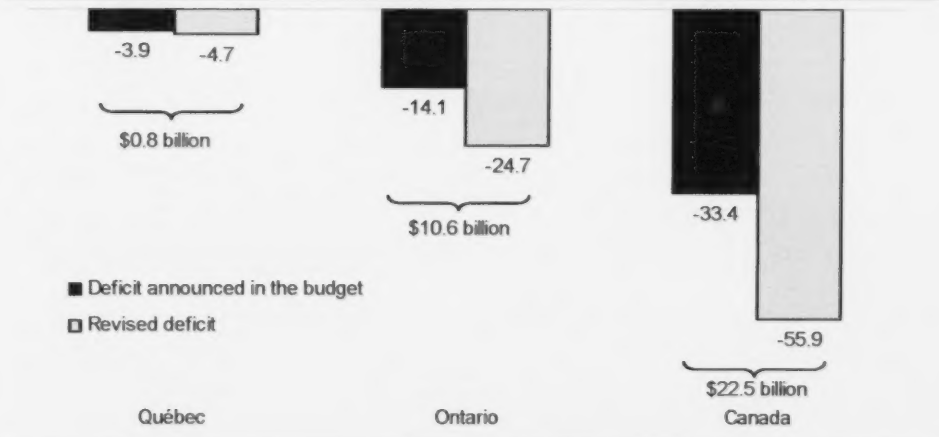
— Québec now estimates its budget deficit at $4.7 billion, an increase of $749 million;

— Ontario is forecasting a deficit of $24.7 billion, an increase of $10.6 billion;

— the federal government has revised its deficit upward by $22.5 billion, to $55.9 billion.

CHART 1

**Adjusted budgetary balance for 2009-2010**
(billions of dollars)




Sources: *2009-2010 Budget Plan* and fiscal update of the respective jurisdictions.

## ■ Deficit raised to $4.7 billion in 2009-2010

For 2009-2010, chiefly because of the additional impact of the global economic recession, the deficit is revised upward by $749 million since the budget of last March, of which more than $500 million is attributable to own-source revenue.

TABLE 1

**Summary of budgetary transactions in 2009-2010[P]**
(millions of dollars)

| | March 2009 budget | Adjustments | Fall 2009 | % difference |
|---|---|---|---|---|
| **BUDGETARY TRANSACTIONS** | | | | |
| Own-source revenue | 47 371 | – 502 | 46 869 | – 1.1 |
| Federal transfers | 14 841 | 315 | 15 156 | 2.1 |
| **Total budgetary revenue** | **62 212** | **– 187** | **62 025** | **– 0.3** |
| Program spending | – 59 989 | – 150 | – 60 139 | 0.3 |
| Debt service | – 6 104 | – 50 | – 6 154 | 0.8 |
| **Total budgetary expenditure** | **– 66 093** | **– 200** | **– 66 293** | **0.3** |
| **Net results of consolidated entities** | **355** | **– 200** | **155** | |
| Provision for revenue shortfalls | — | – 300 | – 300 | |
| **DEFICIT** | **– 3 526** | **– 887** | **– 4 413** | |
| **BALANCED BUDGET ACT** | | | | |
| Deposit of dedicated revenues in the Generations Fund | – 715 | — | – 715 | |
| Stabilization reserve | 295 | 138 | 433 | |
| **BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT** | **– 3 946** | **– 749** | **– 4 695** | |
| *As a % of GDP* | *– 1.3* | *– 0.3* | *– 1.6* | |

P: Projections.

However, the adjustments to the financial framework will not prevent Québec, once the recovery is well under way, from implementing the plan to return to balanced budgets by 2013-2014, announced in the last budget.

The tabling of this economic and financial update is also the starting point for an expanded pre-budget consultation that will enable the public to participate in choosing the avenues to be considered for returning to balanced budgets by 2013-2014, in accordance with the legislation amending the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform.

## Deterioration in the economic outlook since the 2009-2010 Budget

### ■ A more significant decline in real GDP in 2009 than expected

Québec's economic situation deteriorated quickly in the winter of 2009 because global trade fell more substantially than anticipated. In particular, the contraction in American demand for foreign goods was more severe than forecast.

Over the past year, most major advanced economies experienced the worst recession since the Great Depression. In Québec, as in Canada, the economic contraction was not as deep as in prior recessions, when real GDP declined by 3.6% in 1982 and 2.7% in 1991.

The economic situation stabilized in the summer of 2009, leading to the expectation that economic growth will return in the fall of 2009 in Québec, Canada, the United States and many European countries.

With an expected decline in real GDP in Québec of 1.5% in 2009, the current recession will be more severe than anticipated, since an economic contraction of 1.2% had been forecast in the budget.

Québec has been better able to resist international turmoil because of the measures taken by the government, the good performance of the housing market and the importance of the aerospace industry, which fared better than the automobile industry.

TABLE 2

**Outlook for economic growth**
(Real GDP, percentage change)

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| Québec | 1.0 | – 1.5 | 1.7 |
| Canada | 0.4 | – 2.3 | 2.0 |
| United States | 0.4 | – 2.6 | 2.0 |

Sources: IHS Global Insight, Statistics Canada and ministère des Finances du Québec.

## ■ Nonetheless, recovery is at hand

Québec's economy should return to positive, though moderate, growth in the fall of 2009. In 2010, real GDP growth should average 1.7%. The recovery in personal spending and non-residential investment, combined with the recovery under way in the United States and the rest of the world, should support economic growth in Québec over the coming quarters.

Furthermore, after gaining 2.2% in 2008, nominal GDP, on which growth in government revenue depends, will decline by 0.6% in 2009. Next year, the economic recovery and firmer commodity prices will result in a rise of 3.8% in Québec's nominal GDP. On a cumulative basis, from 2008 to 2010, nominal GDP growth will be adjusted downward by 0.8 percentage point since the budget.

## Government economic support actions

Since the fall of 2008, the government has acted a number of times to support the economy. In the 2009-2010 Budget, it announced the implementation of the Plan to support jobs and prepare for economic recovery.

As part of the fall 2009 economic and financial update, the government is announcing that the envelope of the *Renfort* will be increased from $1.2 billion to $2 billion.

Accordingly, the action plan will help inject, in 2009 and 2010, $15.5 billion in Québec's economy, i.e. 5.0% of GDP, including:

— $5.8 billion for businesses;

— $1.4 billion for individuals;

— $8.2 billion to improve infrastructures.

In the interests of transparency, the government is providing an update on:

— the progress made in implementing the measures of the plan;

— the initial results obtained;

— the expected impact based on the most recent information available.

In short, the initial results obtained enable us to state that the Plan to support jobs and prepare for economic recovery will have a significant impact in 2009 and 2010.

— More than $8.2 billion has been committed for 2009, i.e. 102.2% of the amounts stipulated last March.

— Roughly $7.3 billion will be injected into the economy in 2010, for a total of $15.5 billion over two years.

TABLE 3

**The government's action plan: cash resources injected into Québec's economy in 2009 and 2010 – Fall 2009**

| | 2009 | | | | |
|---|---|---|---|---|---|
| | **Commitment announced in the 2009-2010 Budget** ($ million) | **Revised commitment[1]** ($ million) | **Proportion of funds committed** (%) | **Forecast amount in 2010** ($ million) | **Total over two years** ($ million) |
| 1. Additional immediate actions to support businesses and workers | 2 302 | 2 757 | 119.7 | 1 930 | 4 686 |
| 2. Invest in public infrastructure | 4 488 | 4 483 | 99.9 | 3 593 | 8 076 |
| 3. Support households, especially families and seniors | 368 | 360 | 98.0 | 483 | 844 |
| 4. Stimulate investment by reducing the corporate tax burden | 330 | 330 | 100.0 | 729 | 1 059 |
| 5. Prepare Québec for economic recovery | 569 | 300 | 52.8 | 521 | 822 |
| **TOTAL** | **8 057** | **8 230** | **102.2** | **7 257** | **15 487** |

Note: Figures have been rounded off, so they may not add up to the total indicated.
1 Amounts incurred by the government to support businesses and workers in 2009.

The government's rapid response has enabled Québec to resist the repercussions of the economic and financial crisis better than many other jurisdictions in Canada and North America. Today, we can provide a status report for the five major areas of intervention.

**1) Actions to support businesses and workers**

— **The measures to increase cash resources and capitalization of businesses** have helped mitigate the effects of the economic situation and tighter credit conditions. For example, the *Renfort* program, with an envelope of $2.0 billion including the increase of $800 million announced in the current update, has been very successful.

- **The Employment Pact Plus**, stipulating additional investments of $518 million, has helped a large number of workers to upgrade their skills. In just a few months, the Employment Pact Plus has contributed to keeping 21 186 workers employed with the program to support enterprises that risk being affected by the economic slowdown. In addition, Emploi-Québec has helped 420 937 unemployed persons under the array of measures and services offered to individuals.

- **The refundable tax credit for home renovation** provides tax relief of $250 million for roughly 170 000 households (average of $1 470 per household). It should help support $3 billion in renovation work, helping to maintain the jobs of 25 000 workers in the construction industry and creating 2 000 additional jobs in this sector. According to data compiled by the Institut de la statistique du Québec, over the first two quarters of 2009, home renovation spending in Québec rose 14.7% compared to the same period last year.

- **The measures to limit the impact of the financial crisis on supplemental pension plans** apply for a period of three years as of December 31, 2008. They will be applied shortly since the National Assembly has passed legislation to amend the Supplemental Pension Plans Act and other legislative provisions and the government has released, for discussion, the draft regulation stipulating the terms of application of the new funding measures for private plans.

- **The improvements to tax assistance for the cultural sector** will help support almost 400 businesses with film shooting activities in Québec (local and foreign productions) and 100 Québec businesses producing shows and sound recordings.

- **The additional efforts in the forest sector** will help support 2 000 jobs in 2009 in regions severely affected by the forestry crisis and ensure the production of 85 millions seedlings for coming seasons.

**2) Invest in public infrastructure**

- **The $7.9-billion acceleration of infrastructure investments** is contributing to support the economy not only in the short term, but also in the long run by leaving future generations more functional hospitals, roads in better condition, more welcoming schools and municipal infrastructures that are once again up to standard.

**3) Support households, especially families and seniors**

- **The measures to support income and protect the purchasing power of households**, like for example the rise in the minimum wage, the rise in the indexing rate of the personal income tax system and full indexing of last-resort assistance benefits for 2009, are benefiting a large number of households.

— **Investments of $370 million in social and community housing** have notably brought the community housing construction objective to 27 000 under the AccèsLogis Québec and Affordable Housing Québec programs. The Société d'habitation du Québec expects that most of these dwellings will be delivered and ready for occupancy towards the end of 2011. Accordingly, to support these investments, the Société d'habitation du Québec recently signed two agreements with Canada Mortgage and Housing Corporation.

**4) Stimulate investment by reducing the corporate tax burden**

— **The elimination of the tax on capital** will reduce the corporate tax burden by $299 million in 2009 and $673 million in 2010, i.e. nearly $1 billion in two years.

**5) Prepare Québec for economic recovery**

— **The $825-million Teralys Capital fund** has been created. The Québec government has engaged a contribution of $200 million to start financing activities. Support from partners will total $625 million over the coming years.

— **Work to improve airport infrastructures in northern Québec** began this summer in Puvirnituq. In addition, studies on the preliminary route of the Otish Mountains road are under way. Investments of $347 million are planned over the next five years for the development of northern Québec.

— **Work to modernize public dams** is under way in many regions of Québec, in particular the Capitale-Nationale, Mauricie, Laurentides and Saguenay–Lac-Saint-Jean regions. This work represents investments of $22 million in 2009-2010.

## Rise in forecast deficits for 2009-2010 and 2010-2011

### ■ Real results for 2008-2009

The real results of the public accounts for 2008-2009 show a deficit of $1.3 billion. Nonetheless, as stipulated in the budget last March, for the purposes of the Balanced Budget Act the budget is balanced by drawing from the stabilization reserve accumulated since 2006-2007.

— In addition, deposits to the Generations Fund were maintained at $587 million.

## ■ Budget deficits of $4.7 billion in 2009-2010 and 2010-2011

Budget deficits of $4.7 billion are now forecast for 2009-2010 and 2010-2011.

— Moreover, in the interests of prudence, the 2009-2010 deficit includes a $300-million provision to deal with possible additional revenue shortfalls.

TABLE 4

**Summary of adjusted budgetary transactions – Fall 2009**
(millions of dollars)

| | 2008-2009 | 2009-2010[P] | 2010-2011[P] |
|---|---|---|---|
| **BUDGETARY TRANSACTIONS** | | | |
| Budgetary revenue | 62 916 | 62 025 | 63 585 |
| Budgetary expenditure | – 65 054 | – 66 293 | – 68 813 |
| Net results of consolidated entities | 880 | 155 | 369 |
| Provision for revenue shortfalls | — | – 300 | — |
| Plan to return to balanced budgets | | | 1 065 |
| **DEFICIT** | **– 1 258** | **– 4 413** | **– 3 794** |
| **BALANCED BUDGET ACT** | | | |
| Deposit of dedicated revenues in the Generations Fund | – 587 | – 715 | – 881 |
| Stabilization reserve | 1 845 | 433 | — |
| **BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT** | **0** | **– 4 695** | **– 4 675** |
| *As a % of GDP* | — | *– 1.6* | *– 1.5* |

P Projection

## ■ Rise in forecast deficits of $749 million in 2009-2010 and $915 million in 2010-2011

Compared to the 2009-2010 Budget, the upward adjustments to the deficits for the next two years, resulting from the deeper global economic recession than anticipated, are essentially attributable to the following factors:

### 2009-2010

— weaker outlook for economic growth than anticipated, resulting in $475 million less in taxes;

— an increase in program spending of $150 million to finance the increase in the *Renfort* program's envelope;

— a $50-million rise in debt service;

— a $300-million provision for possible revenue shortfalls;

**2010-2011**

- the recurring impact of the economic adjustment, resulting in a decline in tax revenue of $225 million;
- a negative adjustment of $300 million to forecast earnings in Hydro-Québec's strategic plan as of 2010-2011, attributable in particular to the poorer-than-expected outlook for prices on export markets, lower prices for aluminum and the appreciation of the Canadian dollar;
- a downward adjustment of $225 million to forecast revenue under the equalization program;
- an increase in program spending of $170 million essentially attributable to the recurrence of the rise in 2009-2010;
- a $118-million rise in debt service resulting in particular from higher deficits than forecast.

TABLE 5

**Adjustments since the 2009-2010 Budget**
(millions of dollars)

| | 2009-2010 | 2010-2011 |
|---|---|---|
| **BUDGETARY BALANCE IN THE 2009-2010 BUDGET** | **– 3 946** | **– 3 760** |
| **Adjustments** | | |
| Taxes | – 475 | – 225 |
| Hydro-Québec | | – 300 |
| Equalization | | – 225 |
| Program spending | – 150 | – 170 |
| Debt service | – 50 | – 118 |
| **Subtotal** | **– 675** | **– 1 038** |
| Provision for revenue shortfalls | – 300 | — |
| Stabilization reserve | 138 | — |
| Other factors | 88 | 123 |
| **Total adjustments** | **– 749** | **– 915** |
| **BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT** | **– 4 695** | **– 4 675** |
| *As a % of GDP* | *– 1.6* | *– 1.5* |

- **Impact of economic support measures on program spending**

The government's budgetary expenditure is adjusted upward by $150 million in 2009-2010 and by $170 million in 2010-2011, for a total of $320 million. This amount essentially will fund the increase from $1.2 billion to $2 billion in the envelope of the *Renfort* program, which has been more successful than anticipated and is helping support the economy and employment.

- **$300-million provision for revenue shortfalls in 2009-2010**

Moreover, the financial position of all governments has changed rapidly over the past year. To better guard against such a risk, the financial framework, in 2009-2010, includes a $300-million provision for revenue shortfalls.

# INTRODUCTION

Since the 2009-2010 Budget was tabled, the economic situation has continued to deteriorate in most regions of the world. According to the International Monetary Fund (IMF), the global economy recorded its worst performance in 2009 since the 1930s.

While Québec enjoys a favourable position, in particular thanks to the governments quick and vigorous action to limit job losses, global economic and financial turmoil has resulted in a deeper recession than anticipated.

Like other jurisdictions, the more severe deterioration in the economy in 2009 than anticipated has had additional substantial impacts on public finances. Nonetheless, the recovery expected for the end of the year is at hand.

This is the context in which the government is today tabling the *Update on Québec's Economic and Financial Situation*, which reports on, compared to the last budget:

— the economic outlook;

— the Plan to support jobs and prepare for economic recovery;

— the government's financial position.

The economic and financial forecasts in this document are based on the latest data available indicating, at this stage, that the worst of the economic downturn is behind us.

Although the improvement in the economic outlook in the United States and the recovery in leading indicators of economic activity in the country point to a return to a more favourable economic situation, the global economic recovery is fragile and the risks associated with it remain significant.

In this regard, the government is closely monitoring the economic situation and intends to maintain its support for economic recovery. In addition, once the recovery is well under way, it will take the steps necessary to implement the Plan to return to balanced budgets announced in the last budget.

The tabling of this document is consistent with the government's undertaking to provide Quebecers, in the interests of clarity and transparency, with information on the situation of public finances.

# PART ONE:
## ECONOMIC OUTLOOK

# 1. ECONOMIC OUTLOOK

This section[1] updates the economic forecasts from the 2009-2010 Budget on which the financial framework described in the third section is based.

Like other advanced economies, Québec entered a recession in recent quarters. In 2009, the reduction in real gross domestic product (GDP) exceeded what was forecast in the Budget, since Québec suffered to a greater extent from the collapse of world trade. A 1.5% decrease in real GDP is now anticipated, compared with a 1.2% downturn forecast in the Budget. However, the decline in economic activity is less marked here than it is elsewhere and less significant than during the 1982 and 1991 recessions.

If Québec is better withstanding international economic turbulence, it is because of the Québec government's massive investments in 2008 and 2009 and the housing market, which has not encountered the same problems as in the rest of Canada and the United States. Furthermore, Québec has not experienced the problems that the automobile and energy sectors are facing and continues to capitalize on the aerospace industry. However, several sectors have recorded declines in early 2009, including manufacturing trade and transportation and warehousing sectors.

Moreover, the global economy has showed signs of revival in recent months. In particular, output rose in the second quarter of 2009 in Japan, Germany and France. In addition, the manufacturing sector in the United States has started to revive after two years of decline. In Québec, consumer confidence and retail sales have become more robust compared with the situation at the beginning of the year.

An economic upswing is expected in Québec in the third quarter of 2009. In 2010, economic growth should reach 1.7%, sustained by a turnaround in personal consumption expenditure, non-residential investments and foreign demand, especially from the United States.

TABLE 6

**Economic growth outlook – Québec**
(real GDP, percentage change)

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| **Update – Fall 2009** | **1.0** | **– 1.5** | **1.7** |
| 2009-2010 Budget – March 2009 | 0.8 | – 1.2 | 1.9 |

Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

1 Data pertaining to Québec, Canada and the United States for 2009 and subsequent years are drawn from ministère des Finances du Québec estimates.

## 1.1 The international economic context

The decline in international economic activity in the first quarter of 2009 was greater than anticipated in the Budget and led to a downward revision of expected real worldwide GDP for 2009.

Signs of economic revival such as renewed consumer and business confidence and stabilisation of international trade and production have nonetheless been apparent for several months in a number of regions of the world.

In the fall of 2009, the global economy should progressively improve, sustained by the concerted efforts of governments to support economic activity and stabilize a financial system undermined by the financial crisis. However, the recovery will be fragile as consumption and private investment will have to take over from government stimuli.

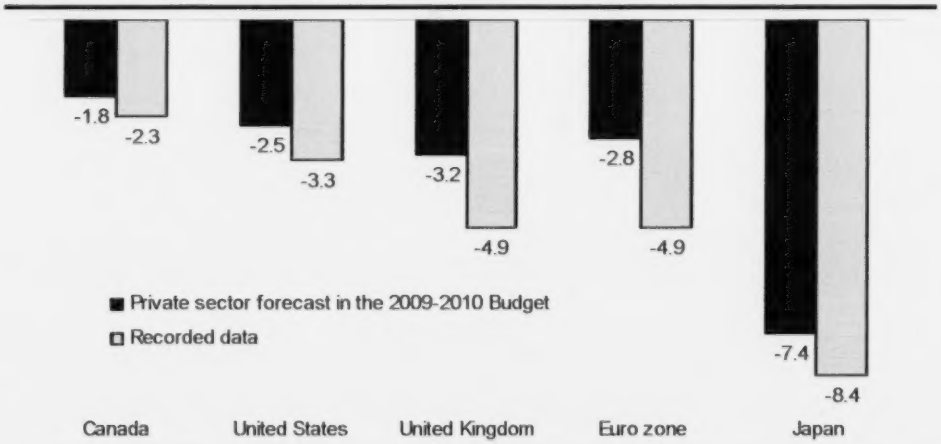
### 1.1.1 The global economy about to recover

Global economic activity shrunk markedly in the first quarter of 2009 when the leading advanced economies recorded sharp decreases in real GDP. These downturns were generally bigger than experts had previously anticipated.

— In particular, exports and private investment plummeted more extensively than anticipated and businesses appreciably reduced their inventories, which accentuated the decline in output.

CHART 2

**Economic growth in certain industrialized countries in the first quarter of 2009**
(real GDP, annual percentage change)




Source: Consensus Economics

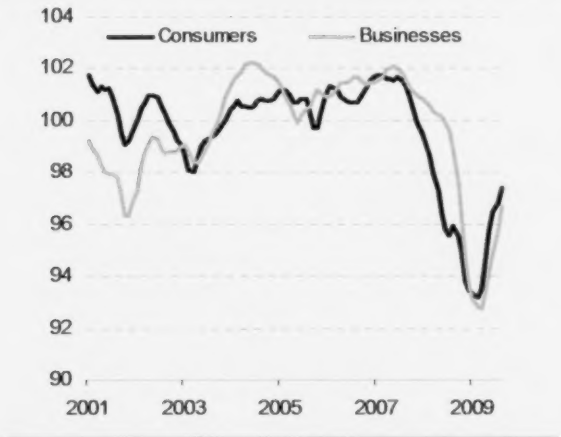
In the second quarter of 2009, the worldwide recession began to abate. Countries such as Japan, Germany and France even recorded positive economic growth after previously experiencing important decreases in output.

Signs of more robust economic activity are apparent in several regions of the world, including a turnaround in consumer and business confidence and a stabilisation in international trade and production. Furthermore, the advanced composite index of the OECD has, in recent months, shown clear signs of an upturn in most of the advanced economies.

Overall, real global GDP should shrink by 1.3% in 2009, 0.8% lower than forecast in the Budget. The larger decrease in American demand for foreign goods, which accounts for nearly 13.0% of world trade, will be reflected in a deeper drop in exports from most of US's economic partners.

CHART 3

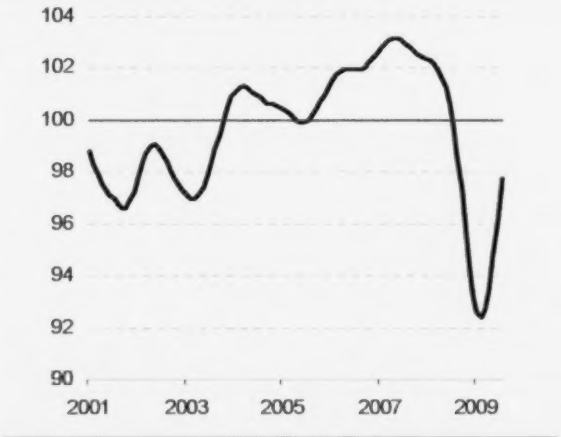
**Consumer and busines confidence index for the OECD zone**
(index)




Source : Datastream

CHART 4

**Advanced composite index for the OECD zone**
(long-term average = 100)




Source : Datastream

In 2010, global economic growth should continue to revive at a slightly quicker pace than anticipated, mainly because of more robust growth in the Chinese economy. Real global GDP should increase by 3.3%, which is nonetheless moderate compared with the 4.6% average growth rate observed over the five years preceding the world recession that began in 2008.

The measures implemented by the members of the G-20[2] to support consumption and investment will stimulate economic activity in the coming quarters. Combined with the stabilization of financial markets, the revival of economic activity will support the recovery in international trade, which should benefit exporting economies.

In **Canada**, real GDP should shrink by 2.3% in 2009 before rising 2.0% in 2010, mainly as a result of a recovery in personal household spending and exports.

In the **United States**, economic activity should decline by 2.6% in 2009 because of the collapse of domestic demand, then increase by 2.0% in 2010 as a result of a gradual upturn in consumption and private investment.

In the **euro zone**, real GDP should decline by 3.9% in 2009, a downturn stemming from the combined reduction in domestic demand and exports. In 2010, economic growth will be limited to 0.8%, mainly because of persistent economic problems in Spain and Ireland and the persistence of high unemployment rates in euro zone countries.

**Japan**, which was hard hit by the collapse of its exports, is about to experience a 6.1% drop in economic activity in 2009. Japanese exports should shrink by nearly 30% this year, because of a plunge in worldwide demand for products with high added value such as automobiles and electronic products. In 2010, Japan will benefit from the worldwide upturn and its real GDP should increase by 1.0%.

In **China**, real GDP should climb 8.1% in 2009, sustained by the vigorous efforts of the Chinese government. In 2010, economic growth should accelerate and reach 10.1% with the resumption of exports and robust growth in private investment and government spending.

---

2 The G-20 is an economic forum consisting of 19 countries and the European Union. The G-20 represents two thirds of commerce and of the world population with 90 % of world GDP.

TABLE 7

## Worldwide economic growth outlook

(real GDP, percentage change)

| | Weight[1] | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| **World** | 100.0 | 2.9 | – 1.3 | 3.3 |
| 2009-2010 Budget | | 3.1 | – 0.5 | 2.5 |
| **Canada** | 1.9 | 0.4 | – 2.3 | 2.0 |
| 2009-2010 Budget | | 0.5 | – 1.6 | 2.1 |
| **United States**[2] | 20.6 | 0.4 | – 2.6 | 2.0 |
| 2009-2010 Budget | | 1.1 | – 2.7 | 1.5 |
| **Euro zone** | 15.7 | 0.6 | – 3.9 | 0.8 |
| 2009-2010 Budget | | 0.8 | – 2.4 | 0.1 |
| **Japan** | 6.3 | – 0.7 | – 6.1 | 1.0 |
| 2009-2010 Budget | | – 0.6 | – 3.3 | 1.0 |
| **China** | 11.4 | 9.0 | 8.1 | 10.1 |
| 2009-2010 Budget | | 9.0 | 5.9 | 7.0 |
| **Québec** | 0.4 | 1.0 | – 1.5 | 1.7 |
| 2009-2010 Budget | | 0.8 | – 1.2 | 1.9 |

1 Weight in percentage in the global economy in 2008, according to purchasing power parity.
2 Following the fifth-year review of the national accounts of the United Sates, growth in real GDP for 2008 was lowered from 1.1% to 0.4%.

Sources: International Monetary Fund, IHS Global Insight and ministère des Finances du Québec.

### 1.1.2 Essential conditions for economic recovery

Three conditions were deemed essential in the last March Budget to spur global economic recovery, i.e. the stabilization of the international financial system, the prompt implementation of government recovery plans, and the stabilization of the American real estate market.

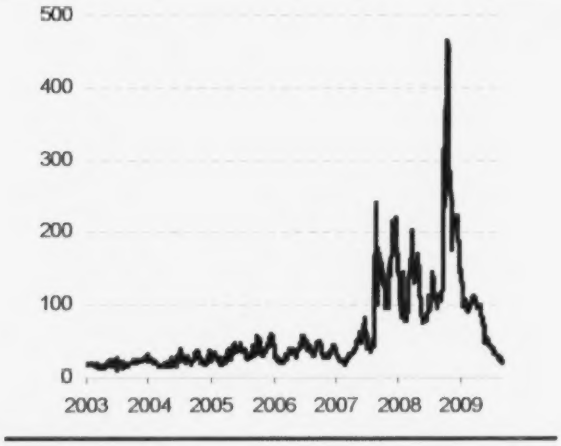
In recent months, changes in economic conditions have fostered the gradual concretization of these conditions, which makes recovery seem more certain. However, to properly trigger economic revival, households and businesses will have to take over from governments as engine of growth next year, and that might be delayed.

#### ❑ Tension on financial markets is abating

Conditions have improved markedly on international financial markets in response to vigorous action by States and central banks.[3] It should be noted that policy interest rates have reached historic lows and that unconventional measures of remarkable scope have been adopted to relax monetary conditions. On money markets, the circulation of inter-bank loans has returned to pre-crisis levels. Furthermore, as for conditions governing the granting of consumer and business credit, banks are still prudent, but to a lesser degree than at the heights of the financial crisis.

CHART 5

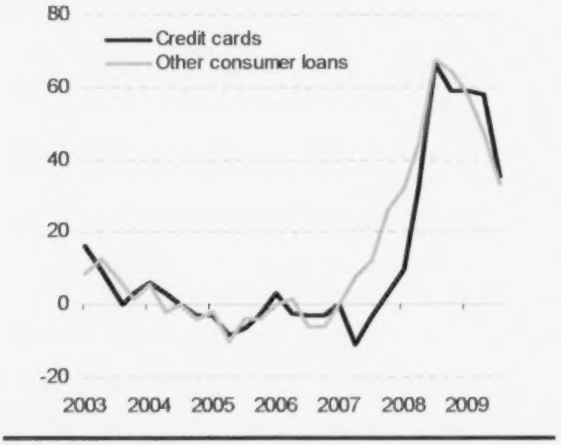
**Yield spread on the inter-bank market – United States**
(in basis points)




Source: Bloomberg

CHART 6

**Percentage of banks that have tightened lending conditions – United States**
(as a percentage)




Source: US Federal Reserve

3 See page B.11 in the *2009-2010 Budget Plan* for more details on these initiatives.

## ❑ Numerous revitalization plans are bearing fruit

Over the past year, several countries have adopted economic stimulus plans, whose impact is already being felt and which have mitigated the economic downturn.

— In the **United States**, public expenditures and investments made under the federal government's stimulus plan have contributed significantly to sustain economic activity in 2009.

— In **Europe**, under the impetus of economic recovery plans, France and Germany recorded positive growth in real GDP in the second quarter of 2009. Measures such as "cash for clunkers" programs sustained consumption, while public spending also rose in both countries.

— In **Japan**, fiscal expansion geared to public investment and support for consumption also fostered renewed positive growth in real GDP in the second quarter of 2009.

— In **China**, the implementation of a massive public infrastructure investment plan is contributing to economic growth in 2009.

According to a recent IMF study, the impact on economic growth of government measures varies across countries in the G-20 group, ranging from 1.2 to 4.7 percentage points for 2009, and between 0.1 and 1.0 percentage point in 2010.

Moreover, according to the International Labour Office, these economic recovery plans should support up to 11 million jobs in the G-20 countries.

TABLE 8

**Minimum and maximum impact on economic growth of fiscal expansion in the G-20 countries, according to IMF estimates**
(in percentage points)

| | 2009 | 2010 | 2009-2010 average |
|---|---|---|---|
| **G-20 countries** | 1.2 - 4.7 | 0.1 - 1.0 | 0.7 - 2.8 |
| Advanced G-20 economies | 1.3 - 4.4 | 0.1 - 1.1 | 0.7 - 2.7 |
| Emerging G-20 economies | 1.1 - 5.0 | 0.0 - 0.8 | 0.6 - 2.9 |

Note: The lower bound of the range is calculated using a multiplier of 0.3 on revenues, 0.5 on capital expenditures and 0.3 on other expenditures. The upper bound of the range is calculated using a multiplier of 0.6 on revenues, 1.8 on capital expenditures, and 1.0 on other expenditures.
Source: International Monetary Fund.

## ❑ The residential real estate market is stabilizing in the United States

During the summer, the real estate market ceased to deteriorate in the United States because of three key factors: the high level of affordability of property, stemming in particular from falling house prices, government programs aimed at minimizing foreclosures, and a general improvement in economic conditions.

Certain recent indicators show that the home resale market segment is beginning to rebound. In particular, after plummeting over 30% since 2007, house prices have stabilized and sales of existing homes have started to rise.

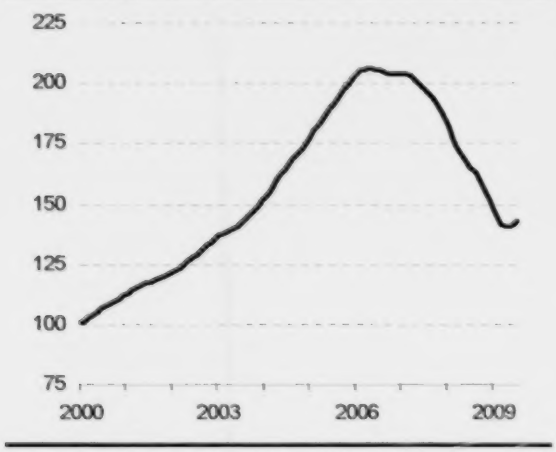
In addition, after bottoming out in early 2009, residential construction also began to turn around. Housing starts rose 23% in five months, between the low point recorded in April and September 2009.

The large number of houses for sale on the real estate market will nonetheless hamper a brisk recovery of activity in this sector of the American economy in the coming quarters. Furthermore, an increase in home foreclosures stemming from problems on the labour market might weaken the strength of the turnaround in this sector.

CHART 7

**Average home prices in the United States**

(index, year 2000 = 100)

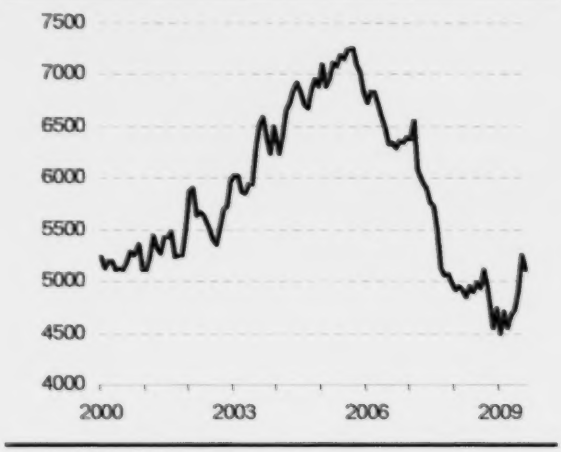



Source: Case Shiller Index.

CHART 8

**Sales of existing homes in the United States**

(thousands of units)




Source: Datastream.

## ❑ A gradual, fragile recovery

While there have been signs in recent months of improved economic conditions, the global economic recovery will be gradual and occur in a fragile economic environment that might curtail growth in domestic demand in the industrialized nations.

First, the positive impact of economic recovery plans will gradually diminish in the coming quarters as the economic stimulation measures implemented were temporary, a response to an exceptional economic crisis. The economic recovery that began very recently in the industrialized nations might be undermined in 2010 by the gradual winding down of government stimulus measures.

— Consumption, an engine of economic growth, will no longer be sustained by government initiatives when the stimulus packages end and will then rely on household income growth and savings rate. In the United States, in particular, this transition may prove difficult in light of high unemployment, sluggish growth in income, stringent credit conditions and the need for households to maintain higher savings rates to restore their finances.

— Similarly, business investments could be curtailed by the under-utilization of production capacity and financing conditions that continue to be difficult.

Another element of uncertainty is that the financial system has been so hard hit by the financial crisis that it may take time to fully recover. Access to credit by consumers and businesses could continue to be difficult in 2010, which limits the turnaround in consumer expenditures and investments.

— The exceptional support measures adopted by public authorities in the United States and Europe will continue to support the financial sector in the coming quarters.

— However, additional financial losses are expected in the banking industry, especially in the United Sates, in the event that the real estate market revives only very gradually and the increase in defaults extends to all categories of loans. Moreover, the commercial real estate market in the United States is also experiencing difficulties, which could generate substantial losses for the banking industry.

In the medium term, high government deficits and indebtedness risk limiting the scope of economic growth because of belt-tightening and revenue measures that governments will have to adopt to restore fiscal health.

## The IMF advocates government intervention to support the economy in a period of exceptional difficulties

Following the emergence in 2008 of an acute, atypical synchronized worldwide recession accompanied by a major financial crisis, in April 2009 the IMF conducted a historic analysis of economic cycles in order to learn from this experience to better understand current issues pertaining to the global economy.

### Recession phases

This analysis revealed that recessions accompanied by financial crises, like those that are synchronized worldwide, are more severe, more prolonged and followed by a slower, weaker revival phase, attributable to the especially significant downturn in trade, domestic demand and credit that occur at that time.

- The period of decline is more marked and the recovery phase slower when a financial crisis combines with a synchronized worldwide recession such as the one we are now experiencing.
- The contraction phases of these recessions are, on average, twice as long as in the case of normal recessions (7.3. quarters as against 3.6 quarters) and the average magnitude of the downturn in economic activity is nearly 75% higher (– 4.8% of real GDP as against – 2.7%) than in normal recessions.

**Duration and magnitude of world recessions**

| | Duration[1] (in quarters) | Magnitude[2] (percentage) |
|---|---|---|
| All recessions | 3.6 | – 2.7 |
| Recessions linked to a financial crisis | 5.7 | – 3.4 |
| Recessions synchronized with other countries | 4.5 | – 3.5 |
| **Recessions combined with a financial crisis and synchronized with other countries** | **7.3** | **– 4.8** |

1 Duration of the recession, in number of quarters.
2 The magnitude represents the percentage change in real GDP from peak to trough.

### Recovery phases

As for the recovery phases, i.e. the periods during which the economy, starting from the low point, returns to its pre-recession level:

- they are, on average, twice as long as the recovery phase associated with conventional recessions (6.8 quarters as against 3.2 quarters);
- the magnitude of these recoveries is also weaker (the change in real GDP one year after the economy has bottomed out stands at 2.8% when the recessions are synchronized and accompanied by financial crises, compared with an average magnitude of 4.1% for recessions overall).

The IMF analysis reveals the importance of government economic stimulation measures in such a context. Fiscal policies to stimulate economic activity are effective and should be emphasized to mitigate the severity of the recession and bolster the subsequent economic recovery.

**Duration and magnitude of the recovery phases**

| | Duration[1] (in quarters) | Magnitude[2] (percentage) |
|---|---|---|
| All recessions | 3.2 | 4.1 |
| Recessions linked to a financial crisis | 5.6 | 2.2 |
| Recessions synchronized with other countries | 4.2 | 3.7 |
| **Recessions linked to a financial crisis and synchronized with other countries** | **6.8** | **2.8** |

1 Number of quarters required to attain the previous peak in real GDP.
2 Magnitude represents the percentage change in real GDP one year after the low point.

Source: International Monetary Fund.

## 1.2 The economic situation in Québec

The economic situation in Québec deteriorated rapidly starting in the fall of 2008, when the global economy and, in particular, the US economy, experienced the deepest recession since the 1930s. Having entered a recession in the fourth quarter of 2008, the Québec economy should return to positive, albeit weak, growth in its real GDP in the third quarter of 2009, after three consecutive quarters of decline.

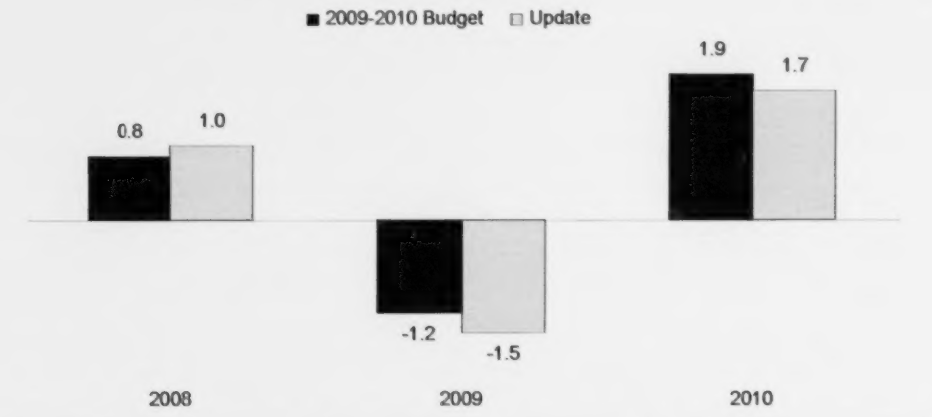
Given the anticipated 1.5% decrease in real GDP in Québec in 2009, the current recession will have been more severe than anticipated while the Budget forecast a 1.2% downturn in the economy. Nonetheless, contrary to the situation in the United States and in most of the big industrialized nations, the current recession will be less severe than the two preceding ones when real GDP declined by 3.6% in 1982 and by 2.7% in 1991.

Québec has better withstood international turbulence, mainly due to massive public investment, a robust housing market, and the importance of the aerospace industry, which has not been as hard hit as the automobile industry.

In 2010, growth in real GDP should reach 1.7%, on average, 0.2 percentage point lower than the Budget forecast. The turnaround in personal consumption expenditure and non-residential investments, combined with the recovery under way in the United States and the rest of the world, will support economic growth in Québec in the coming quarters.

CHART 9

**Economic growth in Québec**
(real GDP, percentage change)




Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

## ❑ Québec is faring better than its trading partners

Québec has better withstood international economic turbulence than its principal trading partners.

Output and employment, in particular, have declined less in Québec than elsewhere in Canada and in the United States.

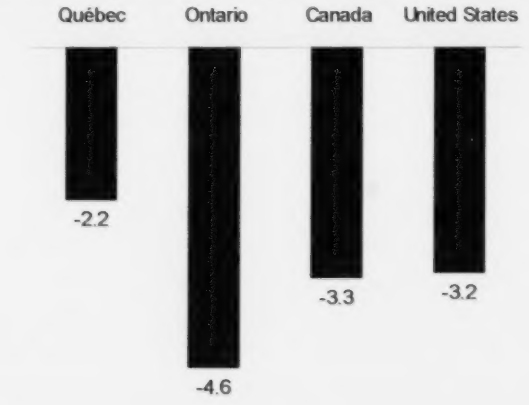
— Since output peaked in Canada in the third quarter of 2008, real GDP in Québec has fallen by 2.2%, compared with decreases of 4.6% in Ontario, 3.3% in Canada and 3.2% in the United States.

— Since employment peaked in Canada in October 2008, Québec has sustained a 1.6% loss in overall employment, compared with 2.9% in Ontario, 2.1% in Canada, and 4.0% in the United States.

Moreover, the downturn in construction starts has been less severe in Québec. Since the beginning of the year, construction starts have fallen by 12.2% in Québec, compared with the same period last year, while they have plunged 39.4% in Ontario, 37.0% in Canada, and 43.7% in the United States.

CHART 10

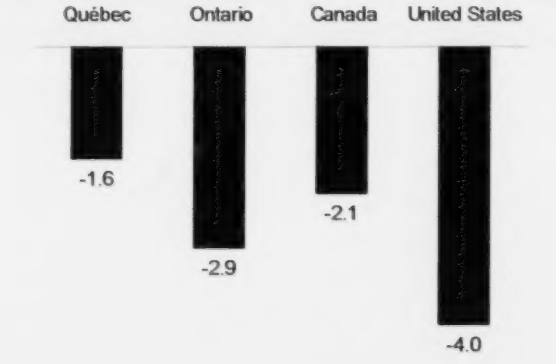
**Change in output between the third quarter of 2008 and the second quarter of 2009**
(percentage change)




Sources: Statistics Canada, Institut de la statistique du Québec, IHS Global Insight and ministère des Finances de l'Ontario.

CHART 11

**Change in employment between October 2008 and September 2009**
(percentage change)




Sources: Statistics Canada, Institut de la statistique du Québec, and IHS Global Insight.

## ❑ Renewed economic growth is expected in the third quarter of 2009

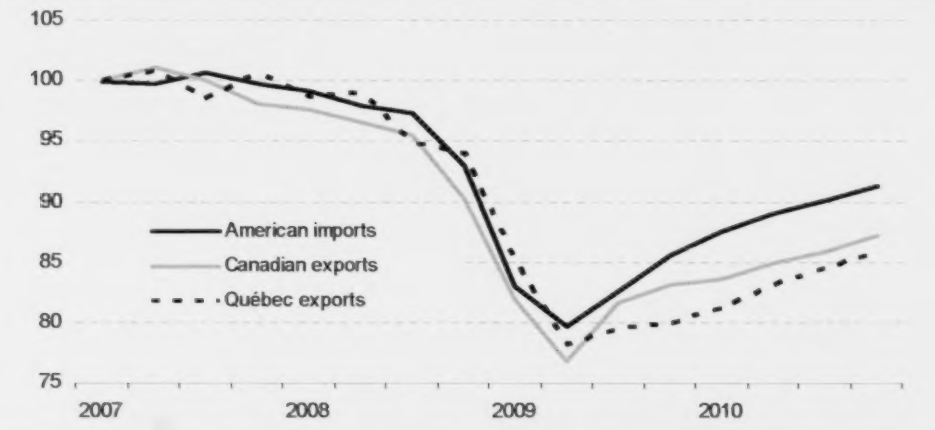
As is the case in the United States and Canada, Québec should experience renewed economic growth in the third quarter of 2009. Rising American demand for Québec products will sustain the recovery. In the US, imports should increase by 8.2% in 2010.

Overall, exports will rise both in Québec and in Canada.[4] However, recovery in Québec will not be of the same intensity as in Canada, which will benefit from the turnaround in the automobile sector and the energy sector, hard hit by the recession, two sectors of limited weight in Québec.

— Québec's international exports are expected to increase by 5.0% in 2010 and Canadian exports, by 7.3%.

CHART 12

**Québec and Canadian exports compared with changes in US imports**
(Index, year 2007=100, in real terms)




Sources: Statistics Canada, Institut de la statistique du Québec, IHS Global Insight and ministère des Finances du Québec.

4 See box "Measurement of American economic activity weighted by trade with Québec".

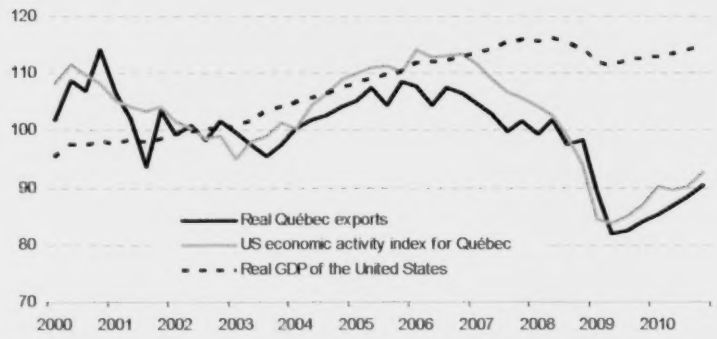
## Measurement of American economic activity weighted by trade with Québec[1]

Québec is extensively integrated into the US economy, which accounts for 72% of its international exports. An index of American economic activity weighted by trade with Québec makes it possible to better anticipate changes in demand for Québec products than the real GDP, since it is closely linked to industry sectors that are important to Québec. The chart below reveals a close correlation between this indicator and Québec exports for the period between 2000 and 2009.

- In fact, while real US GDP fluctuated little between early 2006 and mid-2009, the US sectors linked to trade with Québec plummeted by 26.4%, a change similar to that in Québec exports (– 23.8%).

The US economic activity index reveals that the upturn in Québec exports will exceed the increase in real US GDP. While real US GDP is expected to increase by only 3% between mid-2009 and the end of 2010, the economic activity index indicates instead that exports should rise by nearly 10% during this period.

**US economic activity index in relation to Québec exports of goods**
(index, year 2002=100)




Sources: Institut de la statistique du Québec, IHS Global Insight and ministère des Finances du Québec.

### Composition of the index

The index of US economic activity weighted by trade with Québec has been elaborated using economic activity variables in the United States that have significant weight in Québec exports, which have been grouped into six main categories, i.e. machinery and equipment, consumer goods, intermediate products, transportation, pulp and paper, and construction materials.

The following table indicates the categories of Québec exports, the US economic activity variables linked to Québec's economic activity, and the weight attributed to each variable in the calculation of the index.

**Components of the US economic activity index in relation to Québec**

| Category of exports | Activity variable in the United States | Weight (%)[1] |
|---|---|---|
| Machinery and equipment | Total industrial production index | 23.9 |
| Consumer goods | Consumption of goods excluding vehicles | 20.7 |
| Intermediate products | Investment in equipment and software | 19.6 |
| Transportation | Investment in transportation excluding light vehicles | 19.1 |
| Pulp and paper | Industrial production index in the printing industry | 10.2 |
| Construction materials | Construction starts | 6.7 |

1 Average share between 2002 and 2009. All of the variables are in real terms.
Sources: Institut de la statistique du Québec, IHS Global Insight and ministère des Finances du Québec.

1 Estimations from the ministère des Finances du Québec. The Bank of Canada uses the methodology in respect of the Canadian economy (*Monetary Policy Report*, July 23, 2009).

### 1.2.1 International exports

Québec is extensively integrated into the economy of the United States, which accounts for 72% of Québec's international exports, and has been hit hard by economic difficulties south of the border.

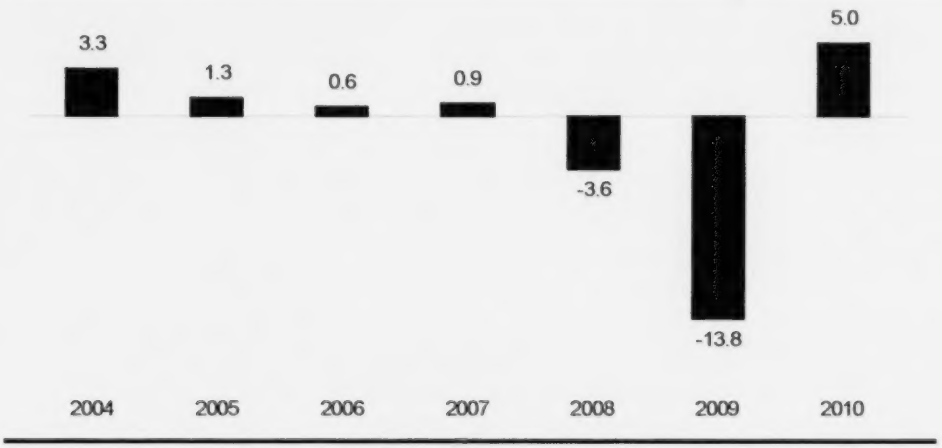
For the first seven months of 2009, international exports of Québec goods plunged 14%. All major sectors have recorded downturns up until now, in particular the lumber, paper, machinery and equipment and primary metal sectors.

Overall, in 2009 international exports of Québec goods are expected to plummet by 13.8%, the biggest drop ever recorded, compared with an 8.3% decrease anticipated in the Budget. This downward revision stems, by and large, from weaker-than-anticipated investments by American businesses, and the higher-than-expected appreciation of the Canadian dollar.

The anticipated upswing in worldwide demand, in particular American demand for foreign manufactured goods, should ensure a revival in Québec's international exports in 2010, which are expected to grow by 5.0%.

CHART 13

**Québec's international exports**
(percentage change, in real terms)




Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

## Changes in the automobile and aerospace industries

Québec economy has better withstood international economic turbulence than its main trading partners have, partly because of a big aerospace sector and more limited activity in the automobile sector.

In Canada, the automobile sector accounted for just over 10% of manufacturing output and 19% of exports in 2008. This sector has encountered serious problems over the past two years.

- In 2008, output in this sector plunged 22.4% and exports declined by 22.8%.
- Since early 2009, the industry's problems have worsened: automobile production has plummeted 42.7% and exports, 44.9%.

Not only has American demand for automobiles and auto parts lagged, but the structural problems of the Big Three US automakers recently came to a head. Consequently, the downturn in the automobile sector largely affected the rest of Canada and, first and foremost, Ontario, where this industry is concentrated.

In the automobile sector, the Big Three US automakers have had to close plants despite the assistance plans launched by the US and Canadian governments. Such disinvestment will make it harder to restore production to pre-recession levels.

On the other hand, the aerospace sector has continued to expand across Canada. In Québec, in 2008 this sector accounted for 11% of manufacturing output and ranked first in terms of international exports of Québec goods, accounting for 17% of such exports. Québec has thus been able to take advantage of a context favourable to expanded output and exports of aircraft and aircraft parts.

- In 2008, the Québec economy was able to bank on 13.9% growth in aerospace production.
- Since early 2009, growth in output has stood at 0.3% and exports have remained at a level similar to that noted in 2008.

Although orders for new aircraft have been adversely affected in recent months, the aerospace sector should gradually revive in Québec as the world economy improves.

**Share of and growth in the aerospace and automobile sectors in Québec and Canada**
(as a percentage, in real terms)

| | Québec | | | Canada | | |
|---|---|---|---|---|---|---|
| | Share of production | Growth | | Share of production | Growth | |
| | | 2008 | 2009[1] | | 2008 | 2009[1] |
| **Manufacturing sector** | | | | | | |
| – Aerospace and parts | 11.2 | 13.9 | 0.3 | 4.4 | 9.9 | 1.5 |
| – Automobiles and parts[2] | — | — | — | 10.4 | – 22.4 | – 42.7 |
| – Other | 88.8 | – 4.3 | – 10.4 | 85.2 | – 3.9 | – 11.4 |
| **TOTAL** | **100.0** | **– 2.6** | **– 9.2** | **100.0** | **– 5.7** | **– 13.9** |

1 Cumulative for the first seven months of 2009 compared with the same period the preceding year.
2 Confidential data for Québec. Exports in this sector stood at $1.9 billion in 2008 in Québec.
Sources: Institut de la statistique du Québec and Statistics Canada.

## ❑ A less marked downturn than in Canada as a whole

Until now, however, the decline in exports has been less pronounced in Québec than in Canada. During the first seven months of 2009, Québec's international exports fell, in nominal terms, by 16.9%, compared with 28.0% in Canada.

— In Québec, the most significant drops have been recorded since the beginning of the year in the primary metals (– 39.6%), lumber and construction materials (– 30.1%) and chemical products (– 22.7%) sectors.

It should be noted that Québec has not been affected by the problems besetting the automobile sector, mostly concentrated in Ontario, nor by those in the energy sector, concentrated in western Canada. Furthermore, Québec has been able to rely on broader diversification of its external trade than Ontario and Alberta have.

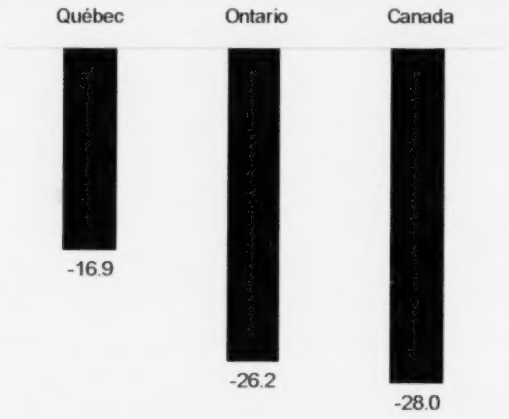
Exports in the aerospace sector, which ranked first among Québec's international exports and accounted for 11% of exports overall, grew by 12% during the first seven months of 2009.

In Ontario, exports in the automobile sector, which accounted for 30.8% of international exports, have slumped 42.2% since the beginning of the year. Moreover, exports by the Alberta oil industry, which accounted for 70.5% of the province's international exports, have fallen by 48.2%.

CHART 14

**Change in international exports in 2009[1]**

(percentage change, in nominal terms)



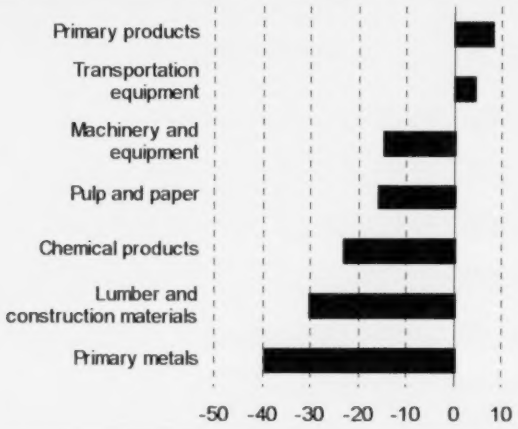

1 Cumulative for the first seven months of 2009 compared with the same period the preceding year.

Source: Statistics Canada.

CHART 15

**International exports of selected Québec goods in 2009[1]**

(percentage change, in nominal terms)




1 Cumulative for the first seven months of 2009 compared with the same period the preceding year.

Source: Institut de la statistique du Québec.

### 1.2.2 Household spending

After having reached 3.2% in 2008, real growth in household spending slowed and should stand at 0.4% in 2009 because of the deterioration on the labour market and the drop of consumer confidence at the end of 2008.

Starting in the fall of 2009, the upturn in consumer confidence and gradual improvement on the labour market will help revive consumption, which should increase by 2.1% in 2010. In addition, a healthy real estate market will also support consumption.

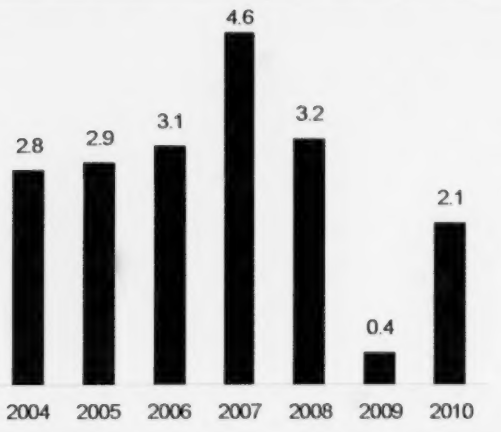
— Consumer confidence improved in 2009 following the stock market revival and in the wake of lower interest rates. In fact, having bottomed out at 64.3 points in February, the Consumer Confidence Index has surged 25.6 points since then to reach 89.9 points last September, a level similar to the pre-recession level (95.9 points in November 2007).

— Furthermore, relatively speaking, Québec has lost fewer jobs than Canada and the United States have. The gradual upturn in job creation in the coming quarters will support consumption.

— Contrary to their neighbours to the south, Québec households have not experienced a correction in the value of their properties over the past two years. They can thus count on undepreciated real estate wealth to support consumption in the coming months.

CHART 16

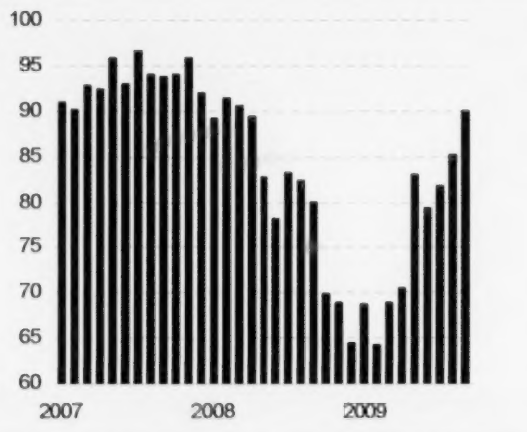
**Personal household spending in Québec**
(percentage change, in real terms)




Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

CHART 17

**Consumer confidence in Québec**
(index, year 2002 = 100)




Source: Conference Board of Canada.

## ❑ A slight decline in residential investments

Following a 1.2% decrease in 2009, residential investments are expected to decline by 0.7% in 2010. Overall, the downturn in residential investments to build new housing will be offset, by and large, by growth in spending on renovations.

In addition, the number of housing starts should fall by 11.1% in 2009 and by 4.7% in 2010 because of the economic slowdown and sustained increases in the prices of properties in recent years. Housing starts should stand at 42 600 units in 2009 and 40 600 units in 2010.

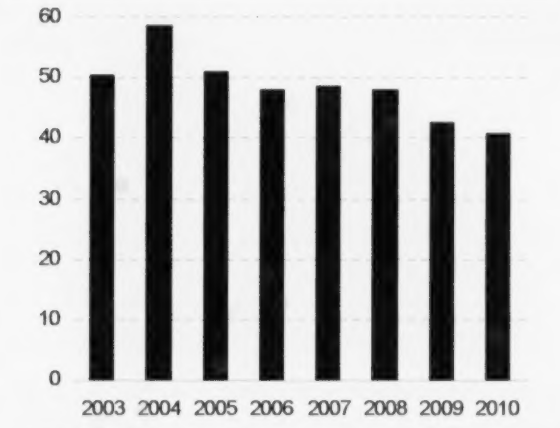
— This marks an upward revision of 3 700 units in 2009 and 3 300 units in 2010.

The downturn in construction starts will, nevertheless, be less pronounced in Québec than in the United States. Between 2005 and 2009, housing starts plummeted 71.5% in the United States and 37.7% in Canada, but only 16.4% in Québec.

CHART 18

**Housing starts in Québec**

(in thousands of units)

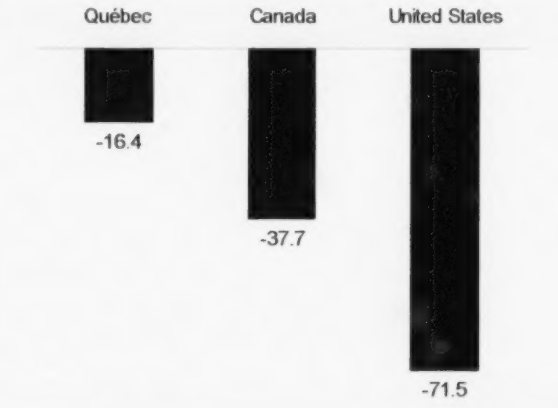



Sources: Canada Housing and Mortgage Corporation and ministère des Finances du Québec.

CHART 19

**Changes in housing starts between 2005 and 2009**

(cumulative change as a percentage)




Sources: Canada Housing and Mortgage Corporation, IHS Global Insight and ministère des Finances du Québec.

### 1.2.3 Non-residential investments

In 2009, falling worldwide demand for goods led to the abrupt collapse of investment by businesses the world over. However, in Québec, this downturn was largely offset by massive government investment in public infrastructure. Thus, the value of total non-residential investments should only decrease by 2.9% in 2009. In 2010, the anticipated economic recovery should foster the gradual relaunching of private investment projects and a 3.8% rebound in total investments.

TABLE 9

**Non-residential investments in Québec**
(percentage change, in nominal terms)

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| **Total investments** | **10.0** | **– 2.9** | **3.8** |
| 2009-2010 Budget | 9.4 | 0.6 | 3.7 |
| **Investments by private and public enterprises** | **3.5** | **– 10.2** | **3.0** |
| 2009-2010 Budget | 4.5 | – 3.6 | 2.5 |
| **Government investments** | **28.2** | **13.3** | **5.1** |
| 2009-2010 Budget | 22.7 | 10.5 | 6.3 |

Note: The government sector includes government departments and bodies and the health and education networks of different levels of government.
Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

#### ❑ Investments by private and public enterprises

Overall, the value of non-residential investments by Québec enterprises should fall by 10.2% in 2009. The Québec economy can nonetheless count on investment projects by public enterprises such as Hydro-Québec to sustain domestic demand and mitigate lower private investment.

In 2010, improved economic activity should foster 3.0% growth in the value of investments by private and public enterprises.

#### ❑ Governments investments

After rising 28.2% in 2008, the value of investments by government departments and institutions at the three levels of government should rise by 13.3% in 2009 and 5.1% in 2010. The value of government investments should reach $15.7 billion in 2010, double the 2002 figure. As a percentage of GDP, government investments will stand at 5.0% in 2010, a 25-year high.

## Governments are contributing significantly to economic growth

This box updates government economic support initiatives in 2009 and 2010.

Overall, government measures in Québec to support the economy and revitalize growth are equivalent to those implemented in Canada and the United States.

Additional cash resources will be invested in 2009 and 2010:

- in Québec, $15.5 billion by the Québec government, equivalent to 5.0% of GDP;
- in Canada, $74.2 billion by the federal government, equivalent to 4.8% of GDP;
- in the United States, US$675.0 billion by the federal government, equivalent to 4.7% of GDP.

The economic recovery plans taken together have supported growth at a crucial time and avoided economic collapse.

**Update of government economic support initiatives in 2009 and 2010 – Fall 2009**

| | 2009 | | 2010 | | TOTAL | |
|---|---|---|---|---|---|---|
| | Billions of $ | % of GDP | Billions of $ | % of GDP | Billions of $ | % of GDP |
| Québec | 8.2 | 2.7 | 7.3 | 2.3 | 15.5 | 5.0 |
| Canada | 51.7 | 3.4 | 22.5 | 1.4 | 74.2 | 4.8 |
| United States[1] | 274.0 | 2.0 | 401.0 | 2.7 | 675.0 | 4.7 |

Note: Includes fiscal and budgetary measures, investments in infrastructure and cash resources invested to support the economy, excluding assistance for the financial sector.

1. Amounts are in US dollars.

Sources: Ministère des Finances du Québec, the federal Department of Finance, the Congressional Budget Office and the US Treasury.

## 1.2.4 The labour market

The deterioration in economic activity should lead to the first marked decrease in employment in Québec since the early 1990s, with an anticipated loss of 42 500 jobs in 2009. Losses will be smaller than during previous recessions, in excess of 100 000 jobs between 1991 and 1993 and over 150 000 jobs in 1982. The economic upswing anticipated in the fall of 2009 should lead to the creation of 9 500 jobs in 2010.

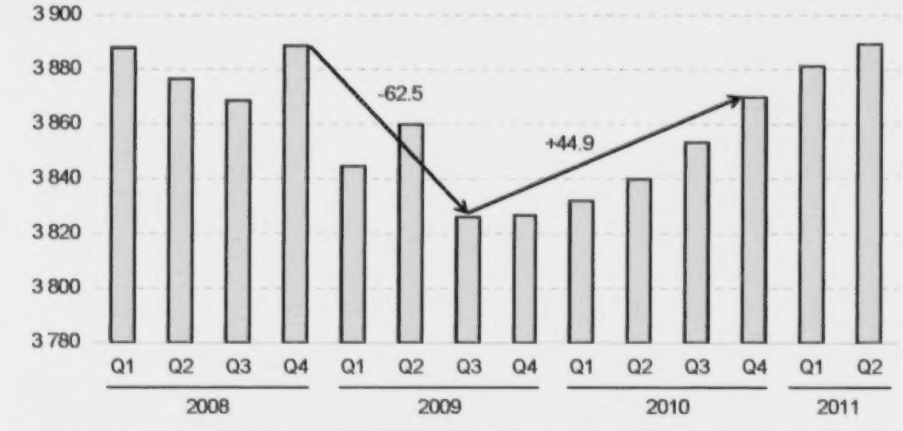
— It should be noted that Québec has lost 62 500 jobs over the past nine months, i.e. between the fourth quarter of 2008 and the third quarter of 2009. The level of employment should remain fairly stable this fall and Québec should regain roughly 45 000 jobs between now and the end of 2010.

The deterioration in employment made the unemployment rate in Québec rise sharply. Having reached 7.2% in 2008, a 32-year low, the unemployment rate rose quickly and should reach, on average, 8.7% in 2009. Workers encouraged by the economic recovery will swell the ranks of the labour force more quickly than the number of jobs created, which will once again nudge up the unemployment rate, expected to reach 9.3% in 2010.

In 2011, brisker economic activity will be accompanied by the creation of over 40 000 jobs, which will foster a drop in the unemployment rate.

CHART 20

**Change in employment in Québec**
(in thousands of units)




Sources: Statistics Canada and ministère des Finances du Québec.

## 1.2.5 Nominal GDP

After rising 2.2% in 2008, nominal GDP, on which government revenues depend, will decline by 0.6% in 2009, a downward revision of 0.5 percentage point compared with the Budget forecast.

— Lower prices and a drop in worldwide demand for raw materials, in particular, led to a bigger-than-expected drop in the value of Québec goods exports, which has curtailed growth in nominal GDP.

Slower anticipated growth in nominal GDP in 2009 will lead to a reduction in or slower growth in taxable bases:

— profits should decline by 22.2%;

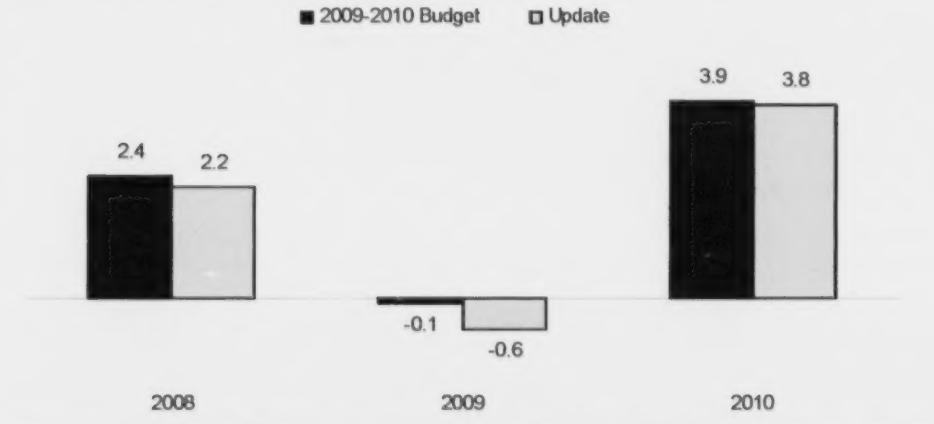
— consumption should grow by 1.0%;

— personal income should increase by 0.7%.

In 2010, the economic recovery and more robust prices for commodities will lead to a 3.8% upturn in Québec's nominal GDP. Between 2008 and 2010, cumulative growth in nominal GDP has been revised downward by 0.8 percentage point since the Budget.

CHART 21

**Change in Québec's nominal GDP**
(percentage change)




Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

### 1.2.6 A comparison with the private sector

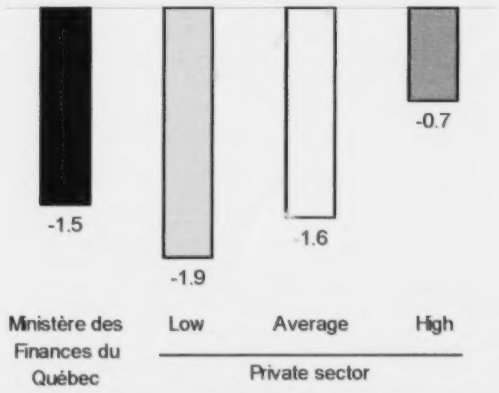
Giving an anticipated 1.5% decrease in 2009, the economic growth forecast of the ministère des Finances du Québec is similar to the average of private sector forecasts, which stands at – 1.6%.

In 2010, the economic growth forecast of 1.7% is slightly lower than the average of private sector forecasts (2.1%).

— The higher spread in growth forecasts by economic forecasters in the private sector in 2010, which ranges from 1.6% to 2.7%, continues to reflect uncertainty surrounding the anticipated vigour of the recovery.

CHART 22

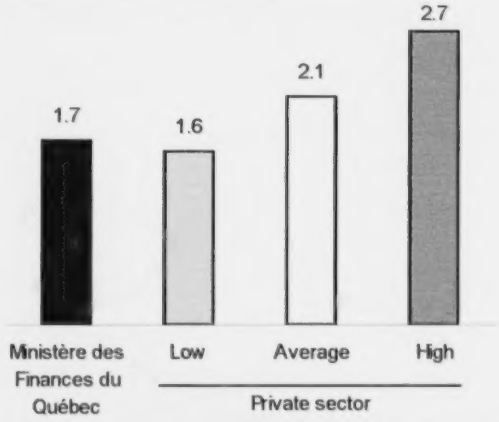
**Economic growth in Québec in 2009**
(real GDP, percentage change)




Note: Ministère des Finances du Québec summary as of October 19, 2009 that includes the forecasts of 10 private sector institutions carried out between June 22 and October 19, 2009.
Source: Ministère des Finances du Québec.

CHART 23

**Economic growth in Québec in 2010**
(real GDP, percentage change)




Note: Ministère des Finances du Québec summary as of October 19, 2009 that includes the forecasts of 10 private sector institutions carried out between June 22 and October 19, 2009.
Source: Ministère des Finances du Québec.

TABLE 10

## Economic outlook in Québec

(percentage change, unless otherwise indicated)

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| **PRODUCTION** | | | |
| Real gross domestic product | 1.0 | – 1.5 | 1.7 |
| – *2009-2010 Budget* | *0.8* | *– 1.2* | *1.9* |
| Gross domestic product | 2.2 | – 0.6 | 3.8 |
| – *2009-2010 Budget* | *2.4* | *– 0.1* | *3.9* |
| **COMPONENTS OF GDP** (in real terms) | | | |
| Consumption | 3.2 | 0.4 | 2.1 |
| – *2009-2010 Budget* | *3.8* | *1.2* | *2.2* |
| Non-residential investments | 0.8 | – 15.3 | 6.6 |
| – *2009-2010 Budget* | *2.6* | *– 8.4* | *6.4* |
| International exports | – 3.6 | – 13.8 | 5.0 |
| – *2009-2010 Budget* | *– 3.4* | *– 8.3* | *2.3* |
| International imports | 2.6 | – 12.2 | 7.4 |
| – *2009-2010 Budget* | *1.7* | *– 2.3* | *4.1* |
| **OTHER ECONOMIC INDICATORS** | | | |
| Nominal consumption | 4.7 | 1.0 | 3.6 |
| – *2009-2010 Budget* | *5.1* | *1.6* | *3.9* |
| Construction starts (in thousands of units) | 47.9 | 42.6 | 40.6 |
| – *2009-2010 Budget* | *47.9* | *38.8* | *37.3* |
| Personal income | 3.4 | 0.7 | 2.8 |
| – *2009-2010 Budget* | *3.5* | *1.1* | *2.6* |
| Corporate profits | 0.5 | – 22.2 | 13.1 |
| – *2009-2010 Budget* | *4.4* | *– 15.3* | *9.7* |
| Consumer prices | 2.1 | 0.7 | 2.3 |
| – *2009-2010 Budget* | *2.1* | *0.4* | *2.0* |
| **LABOUR MARKET** | | | |
| Job creation (in thousands of units) | 30.0 | – 42.5 | 9.5 |
| – *2009-2010 Budget* | *30.0* | *– 62.9* | *29.5* |
| Unemployment rate (%) | 7.2 | 8.7 | 9.3 |
| – *2009-2010 Budget* | *7.2* | *8.9* | *9.1* |

## 1.3 The economic situation of our principal trading partners

The worldwide economic situation deteriorated rapidly in the fall of 2008 and thus affected Québec's economic partners. However, the situation stabilized during the summer of 2009, which suggests renewed economic growth starting in the third quarter of 2009 in Canada, the United States and several European countries.

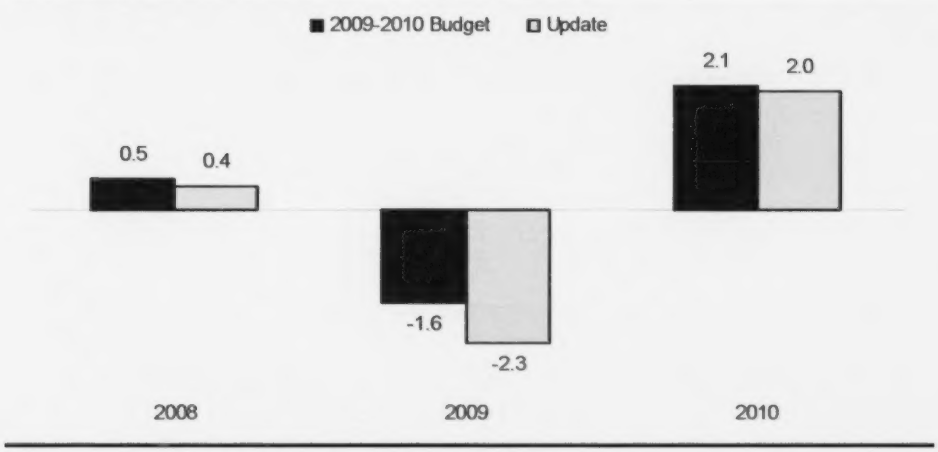
### 1.3.1 The economic situation in Canada

After rising 0.4% in 2008, Canada's real GDP should decline by 2.3% in 2009, the sharpest drop since 1982 (– 2.9%). This is a downward revision of 0.7 percentage point in relation to the Budget stemming from a more marked fall in exports and business investments.

Starting in the fall of 2009, the Canadian economy will benefit from the measures adopted by governments to encourage employment and investments and the flexible monetary conditions implemented by the Bank of Canada. Moreover, the revival of the US economy will stimulate Canadian exports, particularly automobile exports. All told, growth in real GDP should reach 2.0% in 2010.

CHART 24

**Economic growth in Canada**
(real GDP, percentage change)




Sources: Statistics Canada and ministère des Finances du Québec.

## ❑ Exports will recover in 2010

The recession in the United States has significantly affected Canadian exports, especially in the automobile and energy sectors, which account for 30% of Canadian exports.

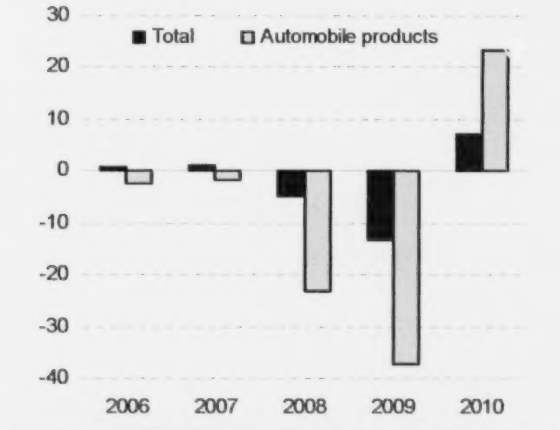
The US automobile sector has been hard hit in recent months by a drop in consumption by American households, which has been constrained by more stringent borrowing conditions and the restructuring of the big US automakers. The rapid drop of demand led to a significant accumulation of inventory among auto dealers and forced automakers in the United States and Canada to significantly curtail the pace of production.

In this context, Canadian automobile exports should plunge by 37.3% in 2009. The upturn in automobile exports began slowly in the second half of 2009, supported in particular by the US government's "cash for clunkers" program aimed at energy inefficient vehicles. However, this rebound will not offset the strong decrease recorded in recent years. The Canadian automobile sector should nonetheless gradually overcome in the coming years the problems that it is facing.

Canadian exports should fall 13.2% in 2009, especially because of lower exports in the automobile and energy sectors. In 2010, the US economic revival and the turnaround in the automobile sector should foster exports, expected to increase by 7.3%.

CHART 25

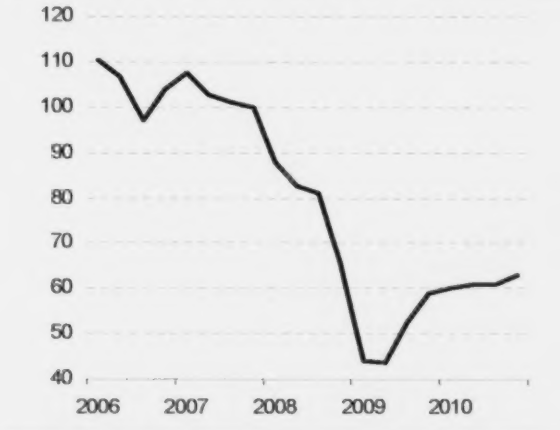
**Exports from Canada**
(percentage change, in real terms)




Sources: Statistics Canada and ministère des Finances du Québec.

CHART 26

**Automobile exports from Canada**
(billions of dollars, in real terms)




Sources: Statistics Canada and ministère des Finances du Québec.

- **Higher worldwide demand for raw materials**

Demand for and the prices of raw materials, depressed by the global recession, declined in late 2008 and early 2009. Since then, prices have recovered with improved prospects for the world economy.

After it reached a historic peak of US$145 in July 2008, the price of a barrel of oil subsequently plummeted as a result of sluggish worldwide demand, to a low of US$34 in December 2008. In 2009, the price of crude oil should rise, on average, to US$60 a barrel, sustained, in particular, by rising demand from China. In 2010, the price of a barrel of oil should increase further to nearly US$87 at the end of the year.

— During the first eight months of 2009, China increased its oil imports by nearly 44% to over 18 million tonnes, a record level.

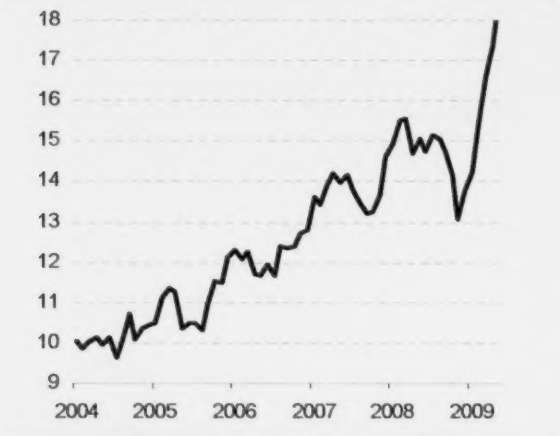
— Moreover, the upturn in the price of oil, denominated in US dollars, was accentuated by the depreciation of the US dollar against the main world currencies in recent months.

Rising prices for commodities will have a positive impact on the profitability of exporting firms and private investments and, eventually, employment.

CHART 27

**China's oil imports**

(in millions of tonnes)

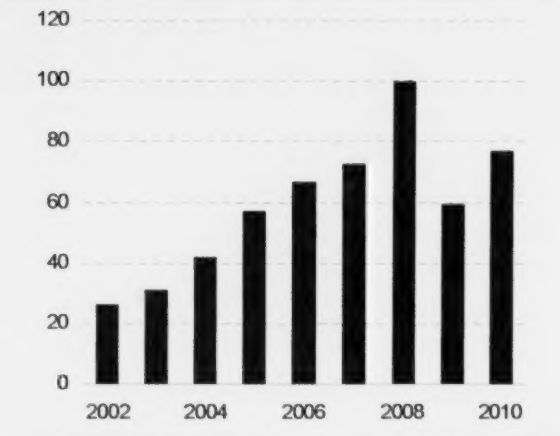



Source: Bloomberg.

CHART 28

**Price of a barrel of West Texas Intermediate (WTI) oil**

(in US dollars)




Sources: Bloomberg and ministère des Finances du Québec.

## ■ The appreciation of the Canadian dollar is hampering recovery

The respite accorded Canadian exporters by the fall in the dollar in early 2009 was short-lived. Having dipped to US$0.77 in March, it appreciated 26% to reach US$0.97 by mid-October, close to its pre-recession level.

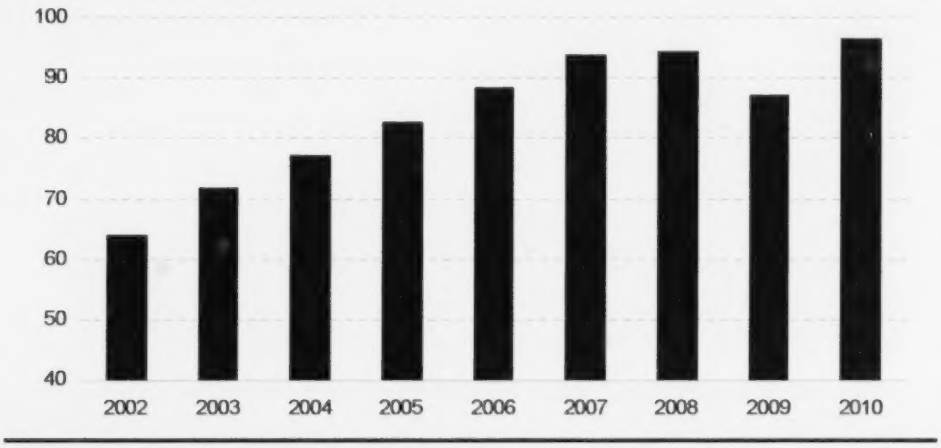
— In 2009 overall, the dollar should reach, on average, US$0.87, up US$0.05 in relation to the Budget forecast.

— This increase is mainly attributable to Canada's relatively sound economic performance, higher prices for raw materials, including the price of oil, and the weakness of the US dollar.

The worldwide economic recovery and demand for Canadian products should support the Canadian currency. The value of the Canadian dollar should remain around US$0.96 in 2010, a level similar to that expected, on average, by the private sector.

CHART 29

**Canadian dollar exchange rate**
(in US cents)




Sources: Statistics Canada and ministère des Finances du Québec

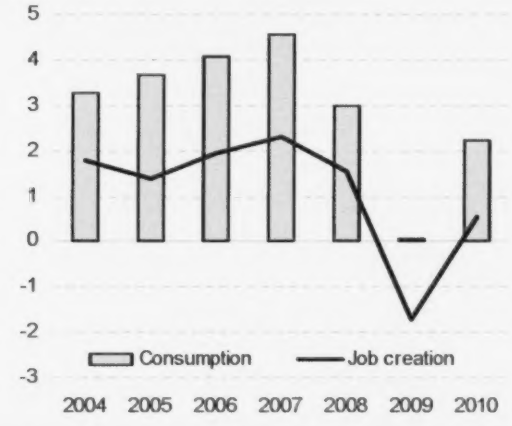
## ❑ A gradual recovery of domestic demand

As in Québec, growth in consumer spending slowed in 2009 because of job losses and falling consumer confidence. Consumption should stagnate in 2009, up only 0.1%, before picking up to 2.2% in 2010 with the resumption of job creation.

In the business sector, the downturn in output and weak prices in 2009 have cancelled and delayed certain investment projects, especially in the energy and automobile sectors. This situation should lead to a 16.0% decrease in the value of non-residential investments by businesses this year and another decrease of 2.4% in 2010.

CHART 30

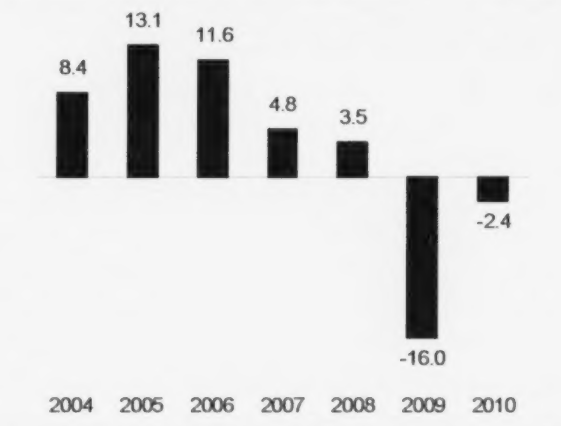
**Job creation and consumer spending in Canada**
(percentage change, in real terms)




Sources: Statistics Canada and ministère des Finances du Québec.

CHART 31

**Non residential business investment in Canada**
(percentage change, in nominal terms)




Sources: Statistics Canada and ministère des Finances du Québec.

## Revised private and public non-residential investment intentions for 2009

Last July, Statistics Canada published an update of the survey for private and public non-residential investments disseminated in February 2009, to ascertain to what extent recent economic conditions have altered prospects for capital spending in 2009. It should be noted that non-residential investments include investments in construction and in equipment and tools and that they take into account spending by businesses and governments.

**Canada**

In Canada, $227.9 billion in investment is expected in 2009, down 10.4% from the 2008 figure.

- Planned investments in equipment and tools in 2009 are down 17.0% and planned non-residential construction investments, 5.0%.
- Planned investments have been revised downward in most industrial sectors. The most striking downturns are anticipated in the mining, oil and gas drilling, finance and insurance, and manufacturing sectors.

Prospects for growth in investments have been revised downward by 3.8% in relation to the outlook published in February 2009. The business services, wholesale trade and finance and insurance sectors have recorded the biggest decreases.

On the other hand, the anticipated expenditures of governments stand at $41.2 billion, a 14.8% increase.

- Investment is up in most sectors, in particular the educational services and health care and social assistance sectors.

**Québec**

In Québec, planned private and public investments now stand at $38.3 billion in 2009, a 9.5% decrease in relation to capital spending in 2008. This downturn nonetheless comes on the heels of a 12.0% increase in 2008.

- A striking drop has been recorded in planned investments in equipment and tools (– 23.2%), which indicates that private enterprises are waiting for the economic recession to end before they begin to invest again.
- Non-residential construction should increase by 3.8%, spurred by the *Québec Infrastructures Plan*.

**Ontario**

In Ontario, planned private and public investments now stand at $69.5 billion, down 3.0% in relation to the capital expenditures recorded in 2008.

**Planned private and public non-residential investments according to Statistics Canada**
(annual percentage change)

| | | 2009 | |
|---|---|---|---|
| | 2008 | July 2009 survey | February 2009 survey |
| **Canada** | **6.1** | **– 10.4** | **– 6.6** |
| Non-residential construction | 11.4 | – 5.0 | – 6.5 |
| Equipment and tools | 0.3 | – 17.0 | – 6.7 |
| **Québec** | **12.0** | **– 9.5** | **– 0.4** |
| Non-residential construction | 24.8 | 3.8 | 1.9 |
| Equipment and tools | 1.3 | – 23.2 | – 2.7 |
| **Ontario** | **– 0.5** | **– 3.0** | **– 1.6** |
| Non-residential construction | – 1.3 | 8.6 | 3.5 |
| Equipment and tools | 0.0 | – 10.9 | – 5.0 |

Source: Statistics Canada.

## ■ Monetary and budgetary policies remain accomodating

Since April 2009, the Bank of Canada target rate has stood at 0.25%, a historic low. It has fallen by 425 basis points since December 2007.

The Bank of Canada has made a conditional commitment, subject to inflation prospects, to maintain the target rate unchanged until the end of the second quarter of 2010. The Bank has indicated that it is closely monitoring the economic situation and changes in the value of the Canadian dollar and that, were it necessary to do so, it might act to more broadly support the economy and expand monetary easing measures by resorting to unconventional measures.

Moreover, to ensure that recovery is well under way, government support plans will continue to have positive effects over the next quarters.

In keeping with most other central banks, the Bank of Canada should initiate monetary tightening in mid-2010. The overnight target rate should reach 0.5%, on average, in 2010, compared with 0.4% in 2009.

TABLE 11

**Canadian financial markets**
(percentage rate)

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| Overnight target rate | 3.0 | 0.4 | 0.5 |
| - *2009-2010 Budget* | *3.0* | *0.6* | *1.0* |
| Treasury bills – 3 months | 2.4 | 0.4 | 0.6 |
| - *2009-2010 Budget* | *2.4* | *0.6* | *1.2* |
| Bonds – 10 years | 3.6 | 3.3 | 3.8 |
| - *2009-2010 Budget* | *3.6* | *2.9* | *3.7* |

Sources: Statistics Canada and ministère des Finances du Québec

## 1.3.2 The economic situation in the United States

Having undergone the longest, deepest recession since the Great Depression, the United States is gradually experiencing renewed economic growth as a result of the positive impact of government economic support initiatives and the stabilization of the real estate sector. The need for consumers to increase their savings to restore their finances will, however, curtail growth in consumption and the scope of the recovery. Nonetheless, the resumption of growth in American imports in 2010 stemming from a gradual upturn in consumption and American investment will benefit the global economy.

### ❑ A gradual upturn in economic activity in 2010

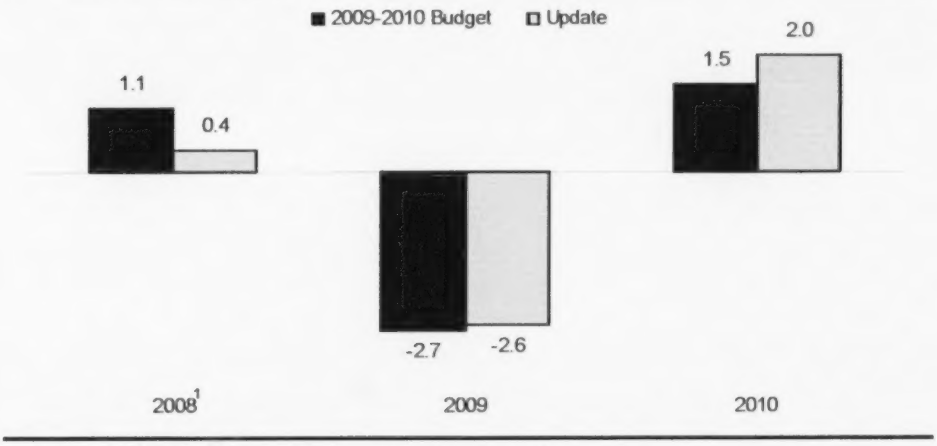
Having reached 0.4% in 2008, economic growth should be negative in 2009 in the United States and should stand at – 2.6%, the first decrease since 1991 (– 0.2%). Although revisions were made to the components of the GDP, including business investments, the anticipated economic growth in the US in 2009 has barely been revised. Although economic activity shrunk more vigorously than anticipated in early 2009, growth at the end of the year should outstrip forecasts.

— A sharp drop in investment and a significant reduction of inventories at the beginning of the year caused economic activity in the US to fall.

— In the second quarter, government initiatives and restocking were expected to temporarily support economic activity.

CHART 32

**Economic growth in the United States**
(real GDP, percentage change)




1 The year 2008 was subject to a fifth-year review of the economic accounts.
Sources: IHS Global Insight and ministère des Finances du Québec

In 2010, growth in real GDP should stand at 2%. Economic recovery will be modest in the first half of the year, limited, in particular, by sluggish growth in consumption. Brisker economic growth will occur in the second half of 2010, as production in the industrial sector accelerates.

— Growth in consumption should, nonetheless, remain weak for a considerable time as American households are putting their finances in order.

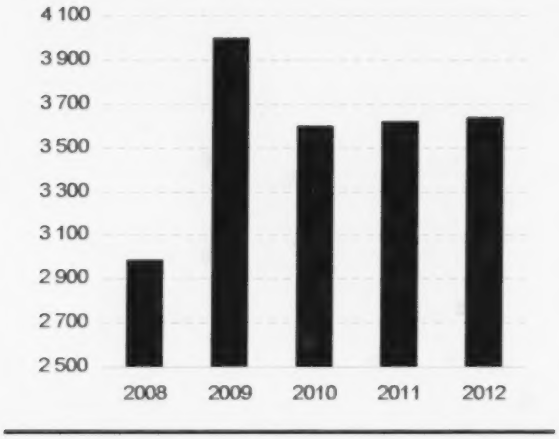
## ❑ Government initiatives that support the economy

Different levels of government in the United States have implemented a number of economic stimulus measures that have enabled the American economy to avoid the worst.

CHART 33

**US federal government expenditures**

(in billions of US$)

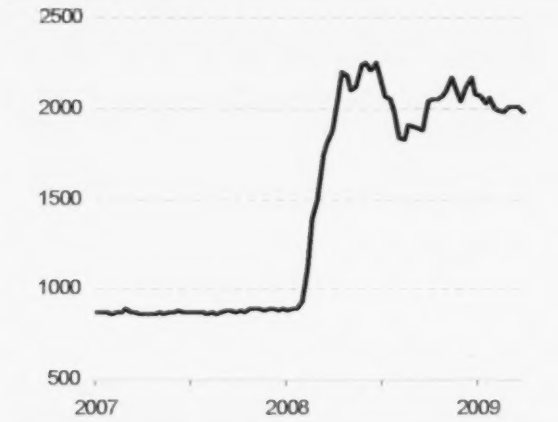



Source: Office of Management and Budget.

CHART 34

**Balance sheet of the US Federal Reserve System**

(in billions of US$)




Source: Board of Governors of the Federal Reserve System.

The US federal government launched a massive stimulus plan that should contribute significantly to economic growth in the second half of 2009. The effect of the economic stimuli is expected to abate gradually in 2010.

These economic support policies have, however, led to unprecedented budget deficits and the federal government will subsequently have to adopt measures to put public finances in order.

The US Federal Reserve System has adopted a highly expansionist monetary policy and massively injected liquidities to support the financial system. Consequently, its balance sheet has grown substantially, in particular because of its loans to financial and non-financial institutions in difficulty and its purchases of long-term securities aimed at limiting upward pressure on bond and mortgage rates.

Following the reduction of its lending rate in a range of rates between 0% and 0.25% in late 2008, the Federal Reserve System is expected to maintain its monetary policy at the current level until the second half of 2010 and gradually withdraw its unconventional measures in 2010.

### ❑ A recovery in the real estate sector in 2010

After several very difficult years, the US real estate market should begin a recovery. In the wake of a 22.9% drop in 2008, residential investments should decline by 22.8% in 2009. The positive change in market conditions should engender growth of 6.9% in 2010.

— The ready availability of houses and government policies to support this sector will foster renewed growth.

Recovery on the real estate market will nonetheless be mitigated by growing numbers of bank foreclosures on properties stemming, in particular, from significant job losses in recent quarters, which is flooding the market with existing homes and depressing prices.

## ❑ Households are being cautious

The financial position of American households is precarious since their assets have shrunk significantly in the wake of the collapse of house prices and stock market upheavals. Since the beginning of the financial crisis, the net wealth of households has fallen by nearly 20%.

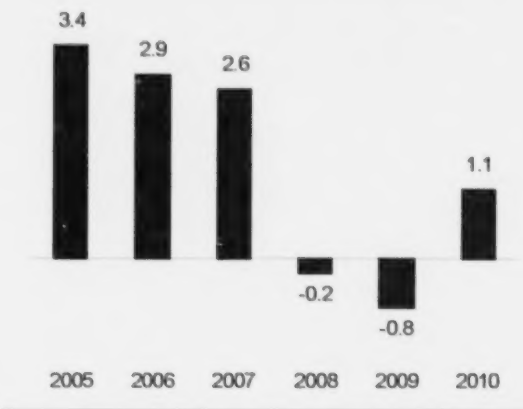
Furthermore, the low savings rate of Americans has helped pushed their indebtedness to record levels in recent years. They are now seeking to put their finances in order before increasing consumption in a sustained manner. Difficult conditions on the labour market have meant slower growth in revenues for certain individuals, who have postponed turning their finances around.

In response to this change, the savings rate of households recently increased and should remain higher than it was previously, which will curtail growth in consumption in the coming years. Having declined by 0.2% in 2008, personal consumption should fall by a further 0.8% in 2009, then increase slightly by 1.1% in 2010.

CHART 35

**Household spending in the United Sates**

(real consumption, percentage change)

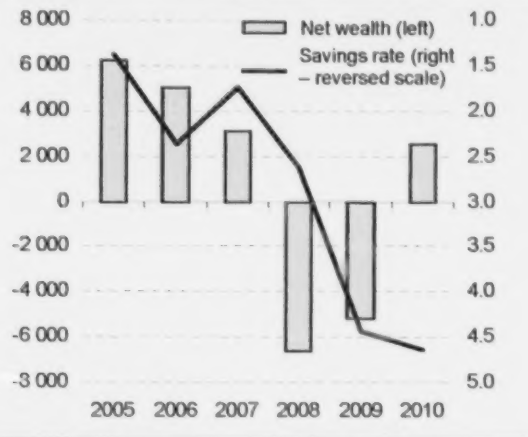



Sources: IHS Global Insight and ministère des Finances du Québec.

CHART 36

**Savings rate and fluctuation in total net wealth[1] in the United States**

(in billions of US$, savings as a percentage of personal disposable income)




1. Total net wealth includes real estate and financial assets of American households.

Sources: IHS Global Insight and ministère des Finances du Québec.

## ❑ A recovery in world trade

The global recession and the drop in American consumption caused trade with foreign countries to shrink markedly in 2009. Real American imports of goods and services fell by 14.6% in 2009, while exports declined by 11.8%.

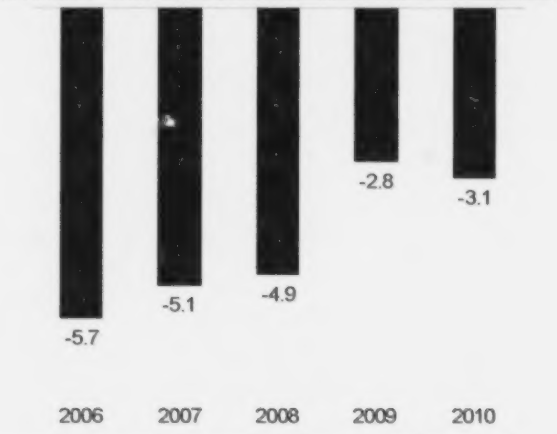
In this context, the US trade deficit was quickly reduced. Having peaked at 5.7% of GDP in 2006, it should reach a low of 2.8% of GDP in 2009, then increase slightly to 3.1% in 2010.

In 2010, growth in American imports of goods and services should reach 8.2% and exports should grow by 6.4%.

— However, the recovery in American imports is expected to be uneven depending on the products and generally more significant in goods, mainly aeronautical and machinery and equipment sectors.

CHART 37

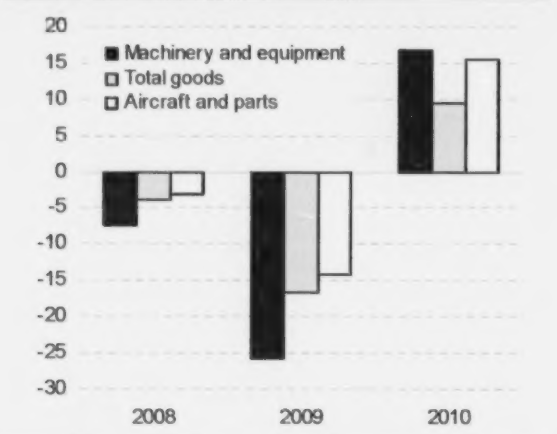
**The US trade deficit**
(net exports as a percentage of GDP)




Sources: IHS Global Insight and ministère des Finances du Québec.

CHART 38

**Imports, by sector, in the United States**
(percentage change, in real terms)




Sources: IHS Global Insight and ministère des Finances du Québec.

# PART TWO:

## UPDATE ON THE PLAN TO SUPPORT JOBS AND PREPARE FOR ECONOMIC RECOVERY

# 2. Update on the Plan to Support Jobs and Prepare for Economic Recovery

Over the past year, the economic outlook has deteriorated throughout the world, and Québec has not been spared. Companies have been weakened by tighter credit conditions and the global recession that have affected the economies of most industrialized countries, in particular those of our largest trading partners, i.e. the United States and the other provinces of Canada.

Faced with this situation, activity has slowed in many sectors, thus jeopardizing the existence of many jobs and the very survival of companies. In addition, with tighter credit conditions, companies have trouble finding the financing needed to invest in modern equipment that enables them to position themselves for the economic recovery.

In this context, since the fall of 2008, the government has acted a number of times to support the economy. With the release of the fall 2009 economic and financial update, the government is providing a review of the actions taken so far.

## 2.1 The government's action plan

In the 2009-2010 Budget, the government announced the implementation of the Plan to support jobs and prepare for economic recovery.

— In addition to the measures announced in the last budget, the action plan is based on the measures announced in the November 4, 2008 economic and financial update and the January 14, 2009 economic statement.

With this action plan, the government is deploying a package of coherent, complementary and varied actions to both support the economy in the short term and prepare Québec for recovery.

Implementation of this ambitious plan began last year and will extend over two years.

— The measures designed to support the economy in the short term will have a significant impact in 2009 and 2010. By their very nature, the effects on the economy of some measures will be more pronounced in 2010.

— The measures designed to improve productivity and foster economic development will have structuring effects on the economy in the longer term.

Along with the fall 2009 economic and financial update, the government is announcing a further increase of the *Renfort* program.

### 2.1.1 Increase in the envelope of the *Renfort* program from $1.2 billion to $2.0 billion

On November 4, 2008, the government announced the implementation of the *Renfort* program, to assist Québec companies facing liquidity problems.

The program's current envelope is $1.2 billion. The program satisfies a real need among businesses, so much so that, as at October 12, 2009, 700 businesses had applied for financing amounting to $776.4 million, i.e. 65% of the total envelope.

As part of the fall 2009 update, to respond to the needs of businesses, the government is announcing an increase of $800 million to the envelope of the *Renfort* program, bringing the total envelope to $2 billion. Accordingly, additional appropriations of $150 million are stipulated in 2009-2010 and 2010-2011.

### 2.1.2 An injection of $15.5 billion in the economy in 2009 and 2010

Overall, the action plan will help inject, in 2009 and 2010, $15.5 billion in Québec's economy, i.e. 5.0% of GDP, including:

— $5.8 billion for businesses;

— $1.4 billion for individuals;

— $8.2 billion to improve infrastructures.

TABLE 12

## Plan to support jobs and prepare for economic recovery – Impact on cash resources

(millions of dollars)

| | Injection of cash resources into the economy in 2009 and 2010 | | | |
|---|---|---|---|---|
| | **Businesses** | **Individuals** | **Infrastructures** | **Total** |
| **Update on Québec's Economic and Financial Situation, Fall 2009** | 800 | — | — | **800** |
| **2009-2010 Budget** | | | | |
| – Measures of the 2009-2010 Budget | 2 010 | 678 | 171 | **2 860** |
| – Additional investments by Loto-Québec and the Société de l'assurance automobile du Québec | — | — | 186 | **186** |
| **Subtotal** | **2 810** | **678** | **357** | **3 845** |
| **Prior announcements** | | | | |
| – Economic Statement, January 14, 2009 | 1 030 | 250 | 1 441 | **2 721** |
| – Measure announced December 19, 2008[1] | — | 40 | — | **40** |
| – Update on Québec's Economic and Financial Situation, November 4, 2008[2] | 1 000 | 459 | — | **1 459** |
| – 2007-2012 Québec Infrastructures Plan[3]: impact compared to 2007 | — | — | 6 450 | **6 450** |
| – Elimination of the tax on capital: impact of rate reductions on January 1, 2009 and 2010[4] | 972 | — | — | **972** |
| **Subtotal** | **3 002** | **749** | **7 890** | **11 641** |
| **TOTAL** | **5 812** | **1 427** | **8 247** | **15 487** |
| **Québec's GDP[P]** | | | | **307 743** |
| **Injection of cash resources into the economy as a % of GDP** | | | | **5.0%** |

Note: Figures have been rounded off, so they may not add up to the total indicated.

P: Average of the forecast of Québec's GDP for 2009 and 2010.

1 Corresponds to the impact of the 25% reduction of minimum withdrawals from registered retirement income funds (RRIF) in 2008.

2 Excluding the cost of Québec proposals that require harmonization with the federal tax system, but not agreed by the federal government.

3 Additional amounts of investment compared to 2007-2008.

4 According to the stipulated timetable for the elimination of the tax on capital by January 1, 2011.

### 2.1.3 Measures of the action plan

The measures of the action plan can be divided into five categories:

1) Additional immediate actions to support businesses and workers:

   — Increase the cash resources and capitalization of businesses — in particular thanks to the *Renfort* program, the Fonds Élan d'entreprises and the $1-billion increase in the capital of Société générale de financement (SGF);

   — Support workers in their efforts to obtain training and seek employment — with the Employment Pact Plus;

   — Stimulate the home renovation sector — with a refundable tax credit for home improvement and renovation;

   — Mitigate the effects of the economic situation on pension plans;

   — Support forest development;

   — Improve tax assistance for the cultural sector.

2) Invest in public infrastructure:

   — Accelerate and increase investments under the 2008-2013 Québec Infrastructures Plan, for which total investment will reach $42 billion over five years.

3) Support households, especially families and seniors:

   — Support income and protect purchasing power;

   — Build community housing and renovate social housing.

4) Stimulate investment by reducing the corporate tax burden:

   — Continue the elimination of the tax on capital by January 1, 2011;

   — Accelerate the tax depreciation of investments in manufacturing and processing equipment, as well as in computer hardware.

5) Prepare Québec for economic recovery:

   — Support our technology companies — in particular with the creation of Teralys Capital, an $825-million technology fund, and the creation of three seed funds for $125 million;

   — Develop northern Québec;

   — Stimulate natural gas exploration;

   — Protect the environment and emphasize environmental technologies.

## 2.2 Fall 2009 update

Since the fall of 2008, the government and its partners have committed significant sums to implement the measures announced in the government action plan.

The results to date are encouraging.

— The measures of the action plan are being implemented according to the timetable stipulated in the 2009-2010 Budget.

— In the short term, the action plan plays a major role to support businesses and workers affected by the economic and financial crisis:

   — the economic slowdown is less severe in Québec than elsewhere;

   — Québec's economic situation is improving;

   — there are increasing signs of a sustained recovery.

— In the longer term, the action plan puts the essential conditions in place to foster productivity and economic growth and, ultimately, increase Quebecers' standard of living.

### 2.2.1 More than $8 billion committed to support the economy in 2009

In a few months, the measures of the action plan have helped companies and workers to get through the recession.

— A total of $8.2 billion has already been committed in 2009, i.e. 102.2% of the amounts stipulated in the 2009-2010 Budget.

The government's rapid response has enabled Québec to resist the repercussions of the economic and financial crisis better than many other jurisdictions in Canada and North America.

TABLE 13

**The government's action plan: cash resources injected into Québec's economy in 2009 and 2010 – Fall 2009**

| | 2009 | | | | |
|---|---|---|---|---|---|
| | **Commitment announced in the 2009-2010 Budget** ($ million) | **Revised commitment[1]** ($ million) | **Proportion of funds committed** (%) | **Forecast amount in 2010** ($ million) | **Total over two years** ($ million) |
| **1.** Additional immediate actions to support businesses and workers | 2 302 | 2 757 | 119.7 | 1 930 | 4 686 |
| **2.** Invest in public infrastructure | 4 488 | 4 483 | 99.9 | 3 593 | 8 076 |
| **3.** Support households, especially families and seniors | 368 | 360 | 98.0 | 483 | 844 |
| **4.** Stimulate investment by reducing the corporate tax burden | 330 | 330 | 100.0 | 729 | 1 059 |
| **5.** Prepare Québec for economic recovery | 569 | 300 | 52.8 | 521 | 822 |
| **TOTAL** | **8 057** | **8 230** | **102.2** | **7 257** | **15 487** |

Note: Figures have been rounded off, so they may not add up to the total indicated.
1 Amounts incurred by the government to support businesses and workers in 2009.

### 2.2.2 Support the economy in 2010 and prepare for recovery

Québec's economic situation will continue to improve over the coming months because of a more favourable global economic situation and the implementation of the government action plan.

- Most measures to support businesses and workers in the short term will continue to apply until the end of 2010 at a minimum, in particular:
  - the *Renfort* program (in effect until December 1, 2010), whose envelope has been increased from $1.2 to $2.0 billion;
  - the Fonds Élan d'entreprises, the result of a partnership between the Fonds de solidarité FTQ (FSTQ) and the SGF;
  - the $1-billion rise in the capital of the SGF to increase investments in Québec companies;
  - the Employment Pact Plus (until March 31, 2011);
  - investments in social and community housing (until the end of 2011).

— In addition to supporting the economy in the short term, many measures will have long-term structuring effects, in particular:

  — investments in public infrastructure;

  — the elimination of the tax on capital;

  — the creation of technology funds;

  — investments to develop northern Québec.

## 2.3 Monitoring measures of the action plan

In the interests of transparency, the government is providing an update on:

— the progress made in implementing each measure of the action plan;

— the results obtained to date, where available;

— the expected impact based on new information since the budget.

### 2.3.1 Actions to support businesses and workers

The actions to support businesses and workers aim, in particular, to provide businesses with additional cash resources and increase their capitalization.

#### ❑ *Renfort* program

In the November 4, 2008 economic and financial update, the government announced the implementation of the *Renfort* program, a program providing financing assistance for Québec companies.

Including the increase announced in this current update, the *Renfort* program will offer companies up to $1.2 billion in additional cash resources until the end of 2010. The financial assistance consists of direct financing to companies or a loan guarantee where a loan is contracted with a recognized financial institution.

**■ Status report**

Since December 2008, the *Renfort* program has helped many companies faced with a temporary liquidity problem related to the economic situation.

— As at October 12, 2009, 405 financing cases had been authorized under the program, for total financing of $411.4 million. As at the same date, near 300 cases were under study.

Thus, the authorized cases and those under study represent an assistance of $776.4 million for roughly 700 Québec companies, nearly 65% of the total financing forecast.

TABLE 14

**Achievements of the *Renfort* program**
(as at October 12, 2009)

| | Cases authorized | | Cases under study | |
|---|---|---|---|---|
| | **Number** | **Financing** ($ million) | **Number** | **Financing** ($ million) |
| Direct loans to companies | 217 | 241.9 | 114 | 222.5 |
| Loan guarantees | 188 | 169.5 | 181 | 142.4 |
| **TOTAL** | **405** | **411.4** | **295** | **365.0** |

Note: Figures have been rounded off, so they may not add up to the total indicated.
Source: Investissement Québec.

The program targets companies in every region of Québec. Of the 405 operations carried out so far, 114 involved companies in the Montréal and Capitale-Nationale regions, while 291 benefited companies in other regions.

TABLE 15

## Regional results of *Renfort* program operations

(as at October 12, 2009)

| Administrative region | Cases authorized | | Cases under study | |
|---|---|---|---|---|
| | Number | Financing ($ million) | Number | Financing ($ million) |
| 01 – Bas-Saint-Laurent | 11 | 8.3 | 18 | 19.6 |
| 02 – Saguenay–Lac-Saint-Jean | 55 | 34.6 | 26 | 20.9 |
| 03 – Capitale-Nationale | 23 | 30.3 | 16 | 31.7 |
| 04 – Mauricie | 9 | 9.5 | 12 | 54.0 |
| 05 – Estrie | 13 | 18.6 | 9 | 4.5 |
| 06 – Montréal | 91 | 96.0 | 65 | 71.4 |
| 07 – Outaouais | 6 | 10.7 | 6 | 37.5 |
| 08 – Abitibi-Témiscamingue | 9 | 7.2 | 5 | 7.6 |
| 09 – Côte-Nord | 2 | 0.9 | 9 | 4.4 |
| 10 – Nord-du-Québec | 0 | 0.0 | 0 | 0.0 |
| 11 – Gaspésie–Îles-de-la-Madeleine | 1 | 1.0 | 1 | 1.4 |
| 12 – Chaudière-Appalaches | 32 | 35.7 | 36 | 33.2 |
| 13 – Laval | 27 | 26.5 | 14 | 7.7 |
| 14 – Lanaudière | 12 | 9.9 | 5 | 1.6 |
| 15 – Laurentides | 20 | 9.5 | 20 | 13.9 |
| 16 – Montérégie | 80 | 70.6 | 44 | 51.3 |
| 17 – Centre-du-Québec | 14 | 42.0 | 9 | 4.3 |
| **TOTAL** | **405** | **411.4** | **295** | **365.0** |

Note: Figures have been rounded off, so they may not add up to the total indicated.
Source: Investissement Québec.

### ❑ Creation of a $500-million emergency business recovery fund

To support medium and large companies affected by the economic situation and with urgent cash requirements, the government announced, in the 2009-2010 Budget, the implementation of a $500-million emergency business recovery fund.

This fund, resulting from a joint initiative of the FSTQ and the SGF, has $500 million in capital consisting of equal contributions of $250 million by the two partners.

#### ■ Status report

On May 29, 2009, the FSTQ and the SGF created the emergency business recovery fund, called Fonds Élan d'entreprises, société en commandite (s.e.c.).

Last July, the FSTQ and the SGF announced an initial commitment of $52 million in a financing instrument for the purchase of civil flight simulator equipment built in Québec. In all, commitment of $200 million are forecast in 2009.

### ❑ Contribution of $1 billion to the SGF to invest in Québec companies

In the January 14, 2009 economic statement, the government announced an additional contribution of $1 billion to the capital of the SGF. This contribution will be paid over two years, i.e. in 2009 and 2010.

This increase in the investment capacity of SGF, in the form of equity, quasi-equity or loans, helps it support more Québec companies and jobs.

#### ■ Status report

The SGF has announced investments of over $270 million in Québec companies.

## ❑ The Stock Savings Plan II

The government announced, in the 2009-2010 Budget, the implementation of a new stock savings plan, the SSP II, to facilitate the capitalization of public companies.

The successor of the SME Growth Stock Plan, the SSP II is intended to enable better access to financing through the public markets, for the benefit of more companies, by stimulating interest among investors for securities of Québec public companies.

The main changes to the stock savings plan under the SSP II are as follows:

— the maximum size of eligible corporations is doubled, from $100 million to $200 million of assets;

— the rate of the deduction is raised to 150% until December 31, 2010;

— the minimum holding period is reduced to two years;

— the procedure relating to the eligibility of shares for coverage purposes is simplified;

— the plan will apply until December 31, 2014.

### ■ Status report

Despite a difficult situation on the stock market, two new public offerings totalling $11 million have been carried out to date, in addition to the $9 million collected by eligible investment funds according to their mid-year results.

The funds raised since the SSP II was implemented in March 2009 exceed all the funds raised in 2008 under the SME Growth Stock plan.

— In 2008, only one company carried out an offering of $4 million, and investment funds raised roughly $7 million.

## ❑ Support workers in their efforts to obtain training and search for employment

The government has acted to meet the labour needs of businesses and to support workers affected by the difficult economic situation. Overall, public and private investments intended to help workers will approach $1.5 billion over three years.

### ■ 2008-2009 Budget: Employment Pact

In the 2008-2009 Budget, the government introduced the Employment Pact, providing for public and private investments of $1 billion over three years, in four major pillars:

— invest in human potential: a paying initiative;

— value work: a trump card;

— better-trained workforce: more productive businesses;

— the Regional Pact: for a better response to needs.

### ■ Status report

Despite the difficult economic situation since the end of 2008, the measures announced by the Employment Pact have helped to foster labour market participation among persons furthest from it.

As at March 31, 2009, the Employment Pact had helped to:

— reduce the number of social assistance recipients by 6 508;

— increase the number of people who are out of work reached by Emploi-Québec services and measures for individuals by 31 822;

— increase the number of businesses helped by Emploi-Québec under the array of measures and services offered to businesses by 1 581;

— increase the number of workers reached by Emploi-Québec to upgrade their qualifications or have their skills recognized by 2 745;

— raise the number of handicapped persons participating in the Contrat d'intégration au travail measure and the Programmes de subventions aux entreprises adaptées by 538;

— increase the number of young participants in the Alternative jeunesse program by 2 395.

## ■ 2009-2010 Budget: Employment Pact Plus

To deal with the anticipated deterioration in the labour market in Québec over the next two years, the government announced, in the 2009-2010 Budget, the Employment Pact Plus that stipulates additional investments of $518 million over two years, including nearly $456 million funded jointly by the Québec government and the federal government.

The Employment Pact Plus has 16 measures to mitigate the effects of the economic slowdown on workers and businesses. The measures are designed mainly to:

— help individuals recently out of work through employment assistance services and training and qualification services;

— act proactively, before lay-offs, in particular by helping companies in difficulty and those that continue to grow through human resources management consulting services and staff training services.

### ▪ Status report

In just a few months, the Employment Pact Plus has helped:

— keep 21 186 workers employed with the program to support enterprises that risk being affected by the economic slowdown implemented by the Commission des partenaires du marché du travail (CPMT).

In addition, Emploi-Québec has helped:

— 420 937 unemployed persons under the array of measures and services offered to individuals;

— 16 903 businesses under the array of measures and services offered to businesses.

**Program to support enterprises that risk being affected by the economic slowdown**

To help businesses experiencing difficulties because of the economic situation to retain their employees, the Commission des partenaires du marché du travail (CPMT) set up the program to support enterprises that risk being affected by the economic slowdown on December 1, 2008. This program enables companies forced to scale down their activities to offer training for their employees rather than laying them off or reducing their work hours.

When the program was set up, the CPMT had allocated $25 million for the period from December 2008 to March 31, 2010 to meet the needs of enterprises by means of the Workforce Skills Development and Recognition Fund. The measure has been an undoubted success, so the government announced, in the spring of 2009, an additional contribution of $25 million to improve the program.

In July 2009, the CPMT added $7.5 million to $50 million already stipulated, then, last October 13, a further $20.9 million. It should be noted that these last financial additions by the CPMT are on top of the private and public investments stipulated in the Employment Pact Plus.

The $78.4 million-envelope shall be available until March 31st, 2010.

Companies quickly made use of this program that, to date, has benefited more than 21 000 workers. Accordingly, businesses will be in a position to participate fully in the economic recovery since they have been able to retain their expertise and improve the skills of their workforce.

**Results as at October 6, 2009**

| | Number | Financing ($ million) | Target employees[1] |
|---|---|---|---|
| Authorized projects | 904 | 53 | 21 186 |
| Projects being developed | 88 | 5[2] | 2 039[2] |

1 The notion of target employees refers to the number of workers who, without the program to support enterprises that risk being affected by the economic slowdown, would have been laid off or whose hours of work would have been reduced substantially.
2 Estimate.
Source: Emploi-Québec.

TABLE 16

## Employment Pact – Private and public investments over three years, i.e. from 2008-2009 to 2010-2011

| | Employment Pact | Employment Pact Plus | Total |
|---|---|---|---|
| **Pillar I: Invest in human potential** | – Implementation of Démarcheurs d'emplois<br>– Intensification of Emploi-Québec's active measures<br>– Increase in employment assistance allowances<br>– Measures for handicapped persons<br>– Assistance for Immigrants and Visible Minorities program (PRIIME)<br>– Improvement in the tax credit for on-the-job training of handicapped persons and immigrants<br>– Broadening of an improvement to the Wage Subsidy measure | – Increase in Emploi-Québec training allowances<br>– Improvement to the Wage Subsidy measure<br>– Renewal of support measures for forest sector workers<br>– Improvement to the Targeted Initiative for Older Workers (TIOW)<br>– Broadening to all activity sectors of the support program for workers affected by collective dismissals (PSTLC)<br>– Intensification of Emploi-Québec's efforts<br>– Broadening to all activity sectors of the Support Program for Older Workers (SPOW) | |
| **Subtotal: Pillar I:** | **$261 million** | **$362 million** | **$623 million** |
| **Pillar II: Value work** | – New work premium supplement<br>– New work premium for persons with a severely limited capacity for employment<br>– Full indexing of the deduction for workers<br>– Implementation of the Découvrir program<br>– Possibility of advance payment of the work premium for households without children<br>– Improvement to the Alternative jeunesse program<br>– Measures fostering phased retirement | – Increase in the minimum wage from $8.50 to $9.00 an hour as of May 1, 2009<br>– Adjustments to the financial assistance provided by certain Emploi-Québec measures<br>– Broadening of eligibility for the work premium supplement to participants in the Alternative jeunesse program | |
| **Subtotal: Pillar II:** | **$106 million** | **$12 million** | **$118 million** |
| **Pillar III: A better-trained workforce** | – Implementation of the Mutuelles de formation<br>– Increase in on-the-job training<br>– Improvement to the tax credit for manpower training - manufacturing sector<br>– Foster skills recognition | – Broadening to the forest and mining sectors of the refundable tax credit for training<br>– Increase in the government's financial participation in funding training projects (MFOR-Entreprises)<br>– Increase in the government's financial participation in funding training projects as part of large-scale economic projects<br>– Implementation of a strategy for proactive intervention with businesses<br>– Increase in concerted activities for employment<br>– Broadening to all activity sectors of the measure encouraging early retirement for older workers (ARTT)<br>– Improvement to the program to support enterprises that risk being affected by the economic slowdown | |
| **Subtotal: Pillar III:** | **$620 million** | **$144 million** | **$764 million** |
| **Pillar IV: Regional Pact** | – Bolstered regional offering of services | | |
| **Subtotal: Pillar IV:** | **n.a.** | **n.a.** | **n.a.** |
| **TOTAL INVESTMENTS** | **$987 million** | **$518 million** | **$1 505 million** |

- **Broadening of the refundable tax credit for training to the forest and mining sectors**

To encourage the training of workers, the government announced, in the 2009-2010 Budget, the broadening of the tax credit for the training of workers in the manufacturing sector to companies in the forestry and forest development sectors, and to companies in the mining extraction, quarry development and oil and gas extraction sectors.

The purpose of this change is to:

— improve the productivity of companies in these sectors by fostering enhanced qualification of their workers, which will enable faster integration of new technologies and new processes in the production process;

— compensate companies in part for the additional costs incurred during training periods.

The tax credit is calculated by applying a rate of 30% to training expenditures incurred before 2012. These expenditures include external training expenses as well as a portion of all of the wages paid to the employees during training.

- **Status report**

This tax assistance will be of particular benefit to SMEs with payroll of less than $1 million, which represent 94% of the companies in these sectors. They will have full access to the tax credit, while larger companies will first have to satisfy their requirement under the Act to promote workforce skills development and recognition (the "1% Act").

It is expected that this broadening will benefit roughly 3 000 companies employing nearly 31 000 workers.

## ❑ Refundable tax credit for renovation and home improvements

In the January 14, 2009 economic statement, the government introduced a refundable tax credit for renovation and home improvements. The tax credit is equal to 20% of eligible expenditures in excess of $7 500, subject to a maximum tax credit of $2 500. It is in effect for 2009.

— The purpose of the tax credit is to stimulate the economy by supporting employment in the residential construction sector, by encouraging major renovation work on the principal residence.

— It is expected that roughly 170 000 households will take advantage of this tax credit for tax relief of $250 million (average of $1 470 per recipient household). In addition, it should help support $3 billion in renovation work, maintain the jobs of 25 000 workers in the construction industry and create 2 000 additional jobs.

It should also be mentioned that in its January 27, 2009 budget, the federal government announced a non-refundable tax credit for home renovation. The federal tax credit complements the Québec tax credit.

Moreover, the ministère des Finances has made a calculator available on its website that a household can use to estimate the amount of the federal and provincial tax credits it may be entitled to, taking its family situation, family income and the type and cost of the work done or under consideration into account.

### ■ Status report

Since the beginning of the year, indicators have shown an increase in activity in the home renovation sector.

— According to data compiled by the Institut de la statistique du Québec over the first two quarters of 2009, home renovation spending in Québec rose 14.7% compared to the same period last year.

— Spending in the same quarters had risen at an average annual rate of 3.1% between 2005 and 2008.

Statistics on the utilization of the home renovation tax credit will be available when Revenu Québec has completed processing 2009 tax returns, i.e. in the fall of 2010.

## ❑ Relief measures for supplemental pension plans

On January 14, 2009, the Québec government announced five measures to limit the impact of the financial crisis on supplemental pension plans. These measures will apply for three years starting December 31, 2008, i.e.:

1) *Application, as at December 31, 2008, of the new standards of the Canadian Institute of Actuaries.*

   — These new standards should enable the value of pension plan commitments (liabilities) to decline by an average of from 3% to 5%.

2) *Consolidation of solvency deficiencies.*

   — This measure would consolidate all the deficiencies, both new and existing at the time of the actuarial valuation, into a single deficiency, thus reducing the required contribution (except for the deficit resulting from a change made after December 30, 2008).

3) *Extension of the solvency deficiency amortization period from five to ten years.*

4) *Smooth plan assets over a maximum of five years, as far as a solvency valuation is concerned.*

   — In the current context, the effect of this measure would be to increase the assets included on the actuarial valuation date, thus reducing the plan's deficiency.

5) *Securing the pensions of retirees upon termination of a pension plan because of the bankruptcy of the employer and its inability to cover the deficiency.* To apply this measure that would protect retirees, the Régie des rentes du Québec:

   — will offer retirees the option to taking over the management of their assets and payment of their pensions rather than purchasing their annuities from an insurer;

   — will manage these assets in accordance with a "prudent" investment policy seeking to increase the amount of retirees' pension;

   — will provide retirees with the amount of pension observed when it takes charge of their assets, taking into account the contributions that would have been payable had the employer not availed itself of relief measures;

   — will cease managing the assets of the retirees at an appropriate time.

### ■ Status report

All the relief measures will be put into effect in the near future.

— On January 15, 2009, the National Assembly passed legislation amending the Supplemental Pension Plans Act and other legislative provisions to mitigate the effects of the financial crisis on the plans covered by this legislation.

— On May 6, 2009, the government released, for discussion, the draft regulation stipulating the terms of application of the new relief measures for the funding of private plans. Final publication of the regulation is expected in the fall of 2009.

## ❑ Measures for the forest sector

The deterioration of the economic situation has affected the forest sector, already weakened by a major restructuring that has been in progress for many years.

To help this sector get through this difficult period, the government improved its support plan for the forest sector in the 2009-2010 Budget with:

— support measures for forest development ($66 million);

— support measures for workers ($34 million).

These efforts support the forest sector and ensure its survival by focusing on forest regeneration, development of high-value-added products and improvement in worker training.

TABLE 17

**Support measures for the forest sector announced in the 2009-2010 Budget**
(millions of dollars)

| | 2009 | 2010 | Total |
|---|---|---|---|
| **Forest regeneration** | | | |
| - Improvement to the Silvicultural Investment Program | 22.0 | — | **22.0** |
| - Financing the production of seedlings | 25.6 | — | **25.6** |
| - Assistance for forest road maintenance in ZECs | 1.0 | 1.0 | **2.0** |
| **New markets for the forest sector** | | | |
| - Development of high-value-added products | 10.0 | 5.0 | **15.0** |
| - Forest certification program for private woodlot owners | 0.5 | 0.5 | **1.0** |
| **Subtotal - Support forest development** | **59.1** | **6.5** | **65.6** |
| **Employment Pact: support measures for forest workers** | **17.5** | **16.6** | **34.1** |
| **TOTAL** | **76.6** | **23.1** | **99.7** |

**Forest Sector Support Plan**

The 2005-2006 Budget announced the implementation of the initial measures of the forest sector support plan. They were designed chiefly to act on the recommendations of the Commission d'étude sur la gestion de la forêt publique québécoise concerning forest management and to implement support measures for businesses and workers in the sector.

The 2006-2007 Budget added to this support with a loan and loan guarantee program, fiscal measures supporting private forest developers and businesses, measures to reduce operating costs, an increase in silvicultural investments, and more assistance for workers.

Later, in October 2006, a series of measures with the same targets enhanced the support plan.

More recently, the 2009-2010 Budget announced measures to support forest development, as well as support measures for workers affected by the current crisis. In addition, in the wake of work by the joint Canada-Québec Committee, the federal government will inject $117.4 million over two years to fund silvicultural work, maintain access to the wildlife and multi-resource state-ownd territories and support the wood products traceability program.

These last efforts have raised the envelope intended for the forest sector which, combined with recent efforts by the federal government, have brought the assistance for this sector to $1.8 billion.

- As at August 31, 2009, $1.4 billion had been spent or committed under the support plan, representing almost 80% of the total stipulated envelope.

The forestry sector continues to play a key role in Québec's economy, particularly in the regions. Nearly 70 000 jobs are directly tied to this sector.

In addition, as a result of modernization efforts, high-value-added products are growing in importance within the industry and now account for almost half the manufacturing jobs in the sector.

## ■ Status report

Additional investments of $22 million in the Silvicultural Investment Program are enabling work to be carried out in the forest (reforestation, production of seedlings, brush clearing, etc.) for a total of $42 million in 2009. This measure is bolstering 2 000 jobs in regions severely affected by the forest sector crisis.

In addition, the $25.6 million granted for the production of seedlings to fully regenerate Québec's forests has enabled the planting of 85 million seedlings that will be available for the 2010 and 2011 seasons.

In all, in 2009, almost 155 million seedlings are being planted in Québec forests, notably under Québec's Silvicultural Investment Program and with support from the federal government. This silvicultural work is securing the long-term viability of Québec's forests and enabling sustainable development of this collective resource.

## ❑ Improve tax assistance for the cultural sector

Changes have been made to the tax credits intended for cultural businesses to help them deal with the difficult economic situation.

### ■ Refundable tax credit for Québec film and television production

In the January 14, 2009 economic statement, many changes were made to the refundable tax credit for Québec film and television production:

— increase in the base rates from 29.1667% and 39.375% to 35% and 45% respectively;

— introduction of an increase of 10% for productions receiving no public financial assistance;

— elimination of the limit of $2 187 500 on the amount of tax credit granted.

The purpose of these changes is to keep Québec's tax system competitive and enable private producers to increase their filming activities in Québec. This tax credit provides roughly $100 million a year in financial support to more than 450 productions.

### ■ Tax credits for the production of shows and sound recordings

As part of the 2009-2010 Budget, improvements were also made to the tax credits for the production of shows and for the production of sound recordings:

— increase in the rate of the tax credit from 29.1667% to 35%;

— increase in the cap on labour expenditures from 45% to 50% of production expenses;

— elimination of the limit on the amount of tax credit claimed.

These improvements will enable the target companies to better respond to the challenges posed by new distribution methods for music and songs. Roughly 100 companies benefit from this tax assistance.

- **Tax credit for film production services**

In an information bulletin released on June 12, 2009, improvements were made to the tax credit for film production services. The purpose of this tax assistance is to encourage foreign producers to select Québec as a location for filming.

— The improvements have enabled Québec to broaden the base of the tax credit and compete with jurisdictions offering similar assistance.

- **Status report**

To date, the improvements made to the tax credit for the production of shows and for the production of source recordings have contributed to the production of 30 performances generating production expenditures eligible for the tax assistance of almost $5 million.

The changes to the tax credit for film production have enabled 74 productions to benefit from more generous tax assistance. These productions required filming expenditures amounting to $118.9 million.

The improvements to the tax credit for film production services benefited two foreign productions with filming expenditures of $5.5 million.

### 2.3.2 Invest in public infrastructure

In January 2009, to support economic activity in Québec, the government raised investments in public infrastructures by 10.9%, i.e. $4.1 billion, bringing the capital budget under the 2008-2009 Québec Infrastructures Plan to $41.8 billion.

By giving an additional boost to infrastructure investment, the government took a significant step to support Québec's economy and employment.

In addition, these investments will leave future generations with:

— more functional hospitals with advanced-technology equipment;

— roads in better condition;

— more welcoming schools that will help foster academic success;

— water and sewer systems developed in line with sustainable development.

These are essential components for the development of a modern, successful and wealth-creating society.

More specifically, compared to the investments made in 2007-2008, the additional cash resources injected into the economy this year and next will reach $7.9 billion:

— $4.4 billion in 2009-2010;

— $3.5 billion in 2010-2011.

■ **Status report**

The government is monitoring the progress of investments made in all sectors. Under the Act to promote the maintenance and renewal of public infrastructures, the Secrétariat du Conseil du trésor will produce the report on the utilization of funds approved for 2008-2009. In addition, the government will release the 2009-2014 Québec Infrastructures Plan.

### 2.3.3 Support households

#### ❑ Protect household purchasing power

In the fall 2008 economic and financial update and last January's economic statement, the government announced a series of measures to protect household purchasing power, namely:

— an increase in the minimum wage of $0.50 an hour effective May 1, 2009, bringing it to $9.00 an hour;

— an increase from 1.58% to 2.36% in the indexing rate of the personal income tax system for 2009;

— last-resort assistance benefits for 2009, including those of households fit for work, fully indexed by 2.36%;

— an increase in Child Assistance and the Work Premium.

#### ■ Status report

These measures are benefiting a large number of households:

— 4.3 million households because of the increase in the indexing rate of the personal income tax system;

— 334 000 households because last-resort assistance benefits are fully indexed;

— 820 000 households because of the increase in Child Assistance and the Work Premium.

#### ❑ Support household income

Since the beginning of 2009, the government has announced a number of measures to support household income, namely:

— an increase in the amount of the tax credit for retirement income from $1 500 to $2 000 in 2009;

— a reduction of 25% in minimum RRIF withdrawals in 2008;

— an improvement to the refundable tax credit for childcare expenses.

■ **Status report**

These measures are benefiting a large number of households:

— 350 000 households because of the improvement to the tax credit for retirement income;

— 100 000 taxpayers because of the measure affecting RRIFs;

— 100 000 families because of the improvement to the refundable tax credit for childcare expenses.

### ❑ Build community housing and renovate social housing

To offer affordable and quality housing to low-income households, investments of $370 million were announced in the 2009-2010 Budget, namely:

— $200 million for the construction of 3 000 community housing units;

— $170 million for home renovation and adaptation in 2009-2010 and 2010-2011.

These investments bring the community housing construction objective to 27 000 under the AccèsLogis Québec and Affordable Housing Québec programs.

In addition, they stimulate activity in the residential construction and renovation industry.

■ **Status report**

On September 3, 2009, the Société d'habitation du Québec signed two agreements with Canada Mortgage and Housing Corporation, namely:

— an agreement stipulating a federal contribution of $57.6 million, over two years, to support home adaptation and renovation initiatives;

— an agreement stipulating a federal contribution of $326.7 million, including $171.1 million for the construction of affordable housing and $155.6 million for the renovation and modernization of existing social housing units (HLM).

As at August 31, 2009, of the planned 27 000 community housing units:

— 17 040 had been delivered;

— 4 963 were under construction.

The Société d'habitation du Québec expects that most of the 27 000 community housing units will be delivered and ready for occupancy towards the end of 2011.

TABLE 18

**Number of community housing units delivered and under way**
(figures as at August 31, 2009)

| | Housing units | | | |
|---|---|---|---|---|
| | Delivered | Under way | Upcoming projects | Total |
| AccèsLogis Québec | 8 865 | 4 535 | 4 754 | 18 154 |
| Affordable Housing Québec | 8 175 | 428 | 243 | 8 846 |
| **TOTAL** | **17 040** | **4 963** | **4 997** | **27 000** |

### 2.3.4 Stimulate investment by reducing the corporate tax burden

The government announced, in the 2007-2008 Budget, the elimination of the tax on capital by 2011 for all companies in Québec.

— Last January, the general rate of the tax fell from 0.36% to 0.24%. It will fall from 0.24% to 0.12% on January 1, 2010, and finally to zero on January 1, 2011.

In addition, the government reduced, in the 2009-2010 Budget, the corporate tax burden by $87 million by introducing the following measures:

— reduction in tax payable by SMEs by increasing the income limit eligible for the reduced tax rate for small businesses from $400 000 to $500 000;

— extension of accelerated depreciation, using the straight-line method, at 50% for investments in manufacturing and processing equipment made in 2010 and 2011;

— introduction of 100% accelerated depreciation for computer hardware acquired before February 1, 2011.

These are concrete measures to stimulate investment that businesses can take advantage of immediately.

■ **Status report**

More than 70 000 businesses will benefit from the measures of the 2009-2010 Budget over the next two years.

Thanks to the lower rate of the tax on capital, Québec companies that still pay tax on capital will have additional cash resources amounting to $299 million in 2009 and $673 million in 2010.

TABLE 19

**Elimination of the tax on capital – Impact of rate reductions**[1]
(millions of dollars)

| | Injection of cash resources in the economy | | |
|---|---|---|---|
| | **2009** | **2010** | **Total** |
| Rate reduction January 1, 2009 | 299 | 299 | 598 |
| Rate reduction January 1, 2010 | – | 374 | 374 |
| **TOTAL** | **299** | **673** | **972** |

1 According to the stipulated timetable for the elimination of the tax on capital by January 1, 2011.

## 2.3.5 Preparing Québec for economic recovery

To prepare Québec for the future, the government has taken a number of initiatives to:

— support technology companies;

— make northern Québec a site of sustainable development;

— stimulate natural gas exploration in Québec;

— become a leader in environmental protection and environmental technologies.

### ❑ $825-million investment to finance the new Teralys Capital fund

In the 2009-2010 Budget, the Québec government announced, in cooperation with its partners, the implementation of a fund with initial capitalization of $700 million (Teralys Capital) to finance venture capital and growth funds.

The partners have made the following contributions to the initial capitalization of Teralys Capital:

— $200 million from the Québec government (through Investissement Québec);

— $250 million from the FSTQ;

— $250 million from the CDPQ.

It is expected that other private partners will provide an additional $125 million to achieve total capitalization of $825 million.

## ■ Status report

Last April 27, the government and its partners announced the creation of Teralys Capital.

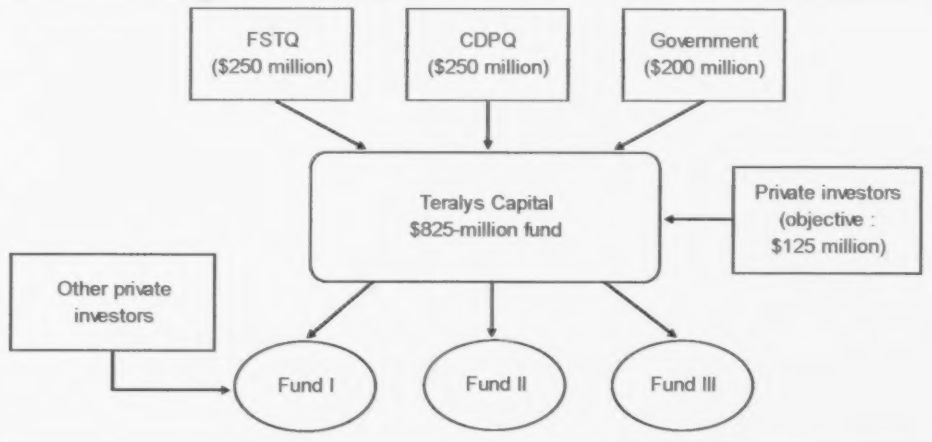
In accordance with industry best practices, the Fund will be managed by a private, independent manager, Jacques Bernier, a well-known manager in Québec's venture capital industry.

Following the order-in-council adopted last September 2, the government committed $200 million to the Fund.

Teralys Capital is currently operational and, over the next five years, will invest in 15 to 20 venture capital funds. The investments of most of these funds will target current and developing areas of Québec technological excellence.

CHART 39

**Teralys Capital financing structure**



## ❑ Seed funds of $125 million

In the 2009-2010 Budget, the government announced the creation of three seed funds totalling $125 million.

The funds will be capitalized as follows:

— $50 million from the Québec government (through Investissement Québec);

— $33 million from the FSTQ;

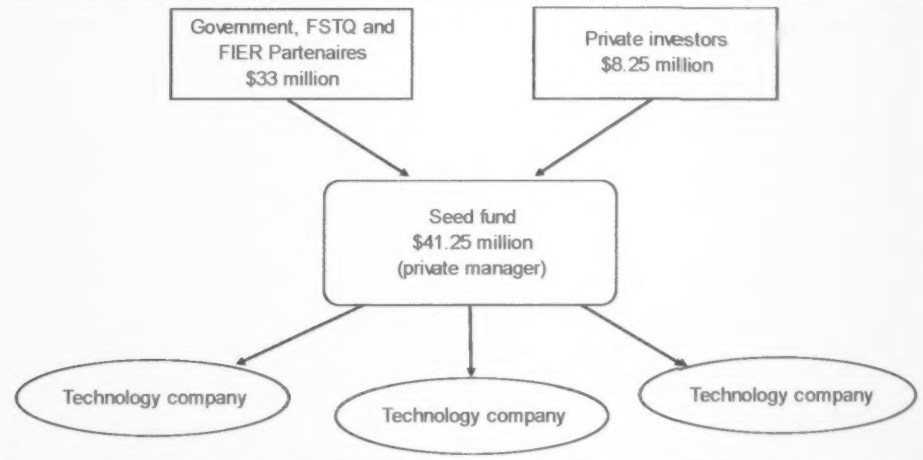
— $17 million from FIER Partenaires;

— $25 million from private investors.

These funds, managed privately under a limited partnership, will have the exclusive mission of making seed investments in technology companies based in Québec. A call for tenders will be held to select the fund managers.

CHART 40

**Illustration of the structure of a seed fund**




### ■ Status report

Calls for proposals for the selection of funds and managers were launched on September 14, 2009.

The selection process will be led by an independent committee of experts and chaired by Martin Godbout, former President and CEO of Genome Canada.

Interested fund managers have until October 30, 2009, to file a complete proposal. The government's goal is for the funds to be operational early in 2010.

### ❑ Tax holiday encouraging the commercialization of intellectual property

In the 2009-2010 Budget, the government introduced a ten-year income tax holiday for new companies that commercialize intellectual property arising from public research. To receive this assistance, a new company will have to be set up before April 1, 2014.

This tax holiday was set up to contribute to the creation of companies spun off from the university community, while at the same time:

- fostering more opportunity for public research;
- encouraging entrepreneurship in Québec through the creation of new companies;
- helping to retain intellectual property in Québec;
- facilitating access to financing for these companies;
- enabling universities and eligible public research centres to benefit more from the commercialization of the results of their research.

The income tax holiday is an integral part of Québec's biopharmaceutical strategy. This strategy has a $122 million envelope dedicated entirely to the development of all companies in the sector.

#### ■ Status report

By 2015, the aim of this tax holiday is to support 200 new companies. To benefit from the assistance, these companies will have to have a certificate from the ministère du Développement économique, de l'Innovation et de l'Exportation.

The work needed to identify promising intellectual property, on the one hand, and to create and organize new corporations, on the other, will help launch many projects over the coming months.

## ❑ Develop northern Québec

The Québec government is committed to developing the vast potential of northern Québec to make it a new site of sustainable development.

In the 2009-2010 Budget Speech, many structuring measures designed to accelerate development projects in northern Québec were announced in this regard.

— Among others, the government announced the construction of a road to the Otish Mountains, improvement and repair work on Highway 389 between Baie-Comeau and Fermont, and improvement and repair work on northern airports. This work represents investments of $347 million over the next five years.

### ■ Status report

Work on airport infrastructures in northern Québec started this summer and will improve airports in northern communities, such as Puvirnituq. Next year, work will continue and will cover other airports.

Studies are under way on the preliminary route of the Otish Mountains road.

Improved infrastructures in northern Québec will make it possible to provide better service for remote populations and thus foster economic development in these regions.

## ❑ Stimulate natural gas exploration

The attractive shale gas potential in the St. Lawrence lowlands is now recognized by the industry. However, much study must still be carried out to understand the geological features of the territory and development conditions.

Moreover, shale gas development in the St. Lawrence lowlands will require investments of many millions of dollars that will have substantial economic spinoffs for Québec. The drop in prices for hydrocarbons and the financial crisis have had an impact on the profitability of exploration projects, causing companies to adjust their investment projects downward.

That is why, in the 2009-2010 Budget, the government put in place measures to encourage the continuation of exploration activities, including a program for the acquisition of geoscientific knowledge and a five-year royalty holiday.

In this way, the government wants to improve knowledge of Québec's geological basins to maintain the level of interest in exploration and attract new players. In addition, it intends to help exploration companies get through this difficult period. In 2009, roughly $3.0 million will be injected into the economy to stimulate natural gas exploration in Québec.

- **Status report**

On September 8, 2009, the Minister of Natural Resources and Wildlife awarded an initial contract to carry out an airborne magnetic survey. The work will be carried out this fall in the axis of the St. Lawrence valley between Montmagny (northeast limit) and the U.S. border (southwest limit). The work will contribute to better knowledge of geological structures and formations over approximately 30 000 square kilometres.

The recession slowed exploration work for shale gas development, which is why the number of projects that may benefit from the royalty holiday was adjusted downward in 2009.

However, interest in this type of production in Québec remains high, so much so that the permitted surface area for oil and natural gas exploration has increased 30% compared to July 2008, reaching 10 million hectares in September 2009.

## ❑ Development of green energy technologies

Innovation in green energy technology can both improve our environmental performance and bolster our economy. To take advantage of business opportunities created by the global environmental shift, the government announced, as part of the 2009-2010 Budget, the implementation of an assistance program for the development of green energy technologies.

The program has a concrete focus on sectors such as wind power and underwater generators, solar and geothermal power, hydrogen, bioenergy and technologies relating to electric vehicles.

- **Status report**

The program was set up in August 2009 and sparked a great deal of interest among companies involved in the green technology field. Many projects are currently being studied.

## ❑ Acceleration of public dam modernization

In 2005, the government had announced the implementation of a plan to bring public dams up to standard to better protect communities and infrastructures against flooding and the risk of dams bursting.

As part of the last budget, the government announced an acceleration of investments in certain major government dams.

By 2015, the government will undertake the work needed to secure some 150 dams, to ensure they can withstand extreme climate events.

### ■ Status report

Some 25 construction projects are currently under way in many regions of Québec, in particular the Capitale-Nationale, Mauricie, Laurentides and Saguenay–Lac-Saint-Jean regions. This work represents investments of $22 million in 2009-2010.

## 2.4 The government's actions since 2003 are helping support the economy

In addition to the measures of the action plan, the tax cuts made by governments in recent years are supporting consumers and businesses.

### 2.4.1 Tax relief measures for individuals since 2003

The tax relief allowed since 2003 increases household income by $5.4 billion in 2009 as a result of, in particular:

- the $950-million tax cut on January 1, 2008;
- the implementation of Child Assistance in 2005;
- the introduction of the Work Premium in 2005.

#### ❑ A significant increase in disposable income

From 2003 to 2009, considering all the measures implemented by the Québec government and the federal government, the increase in household disposable income is substantial.

### ■ Couple with two children

For a couple with two children, the increase in disposable income in 2009 compared to 2003 is:

— $6 454, i.e. an increase of 32.4%, if there is no income;

— $10 158, i.e. an increase of 35.6%, if income is $25 000;

— $5 851, i.e. an increase of 14.7%, if income is $50 000;

— $7 148, i.e. an increase of 13.8%, if income is $75 000;

— $6 359, i.e. an increase of 9.8%, if income is $100 000.

TABLE 20

**Disposable income[1] in 2003 and 2009 of a couple with two children[2] – including the impact of Québec and federal measures**

| Household earned income | Disposable income | | Change from 2003 to 2009 | | |
|---|---|---|---|---|---|
| | 2003 | 2009 | Impact of Québec measures[3] | Total: Québec and federal[4] | |
| | ($) | ($) | ($) | ($) | (%) |
| None | 19 895 | 26 349 | 2 883 | 6 454 | 32.4 |
| 15 000 | 23 795 | 33 677 | 5 381 | 9 883 | 41.5 |
| 25 000 | 28 499 | 38 657 | 4 813 | 10 158 | 35.6 |
| 30 000 | 30 594 | 40 260 | 3 984 | 9 666 | 31.6 |
| 40 000 | 34 580 | 41 977 | 2 440 | 7 397 | 21.4 |
| 50 000 | 39 874 | 45 725 | 1 906 | 5 851 | 14.7 |
| 60 000 | 44 845 | 51 046 | 2 198 | 6 201 | 13.8 |
| 75 000 | 51 934 | 59 082 | 2 648 | 7 148 | 13.8 |
| 100 000 | 64 717 | 71 076 | 1 918 | 6 359 | 9.8 |
| 125 000 | 77 780 | 84 340 | 1 918 | 6 560 | 8.4 |

Note: Figures have been rounded off, so the total may not correspond to the total indicated.

1 For this household, disposable income is equal to the sum of the earned income of the head of household, transfer payments and refundable tax credits, less income taxes and mandatory contributions paid by the income earner (Québec Pension Plan, Employment Insurance, Québec parental insurance plan and public prescription drug insurance plan) less child care expenses. Disposable income reflects the Québec and federal systems.

2 Couple with two children 2 and 3 years of age and one earned income.

3 Including tax relief measures and changes in transfer payments to individuals.

4 Including changes in worker contributions.

Source: *Disposable income calculator*, website of the ministère des Finances (www.finances.gouv.qc.ca).

## ■ Single-parent family

For a single-parent family with one child, the increase in disposable income in 2009 compared to 2003 is:

— $2 923, i.e. an increase of 22.2%, if there is no income;

— $5 131, i.e. an increase of 21.1%, if income is $25 000;

— $3 921, i.e. an increase of 11.0%, if income is $50 000;

— $4 727, i.e. an increase of 9.7%, if income is $75 000;

— $4 330, i.e. an increase of 7.0%, if income is $100 000.

TABLE 21

**Disposable income[1] in 2003 and 2009 of a single-parent family with one child[2] – including the impact of Québec and federal measures**

| Household earned income | Disposable income | | Change from 2003 to 2009 | | |
|---|---|---|---|---|---|
| | 2003 | 2009 | Impact of Québec measures[3] | Total: Québec and federal[4] | |
| | ($) | ($) | ($) | ($) | (%) |
| None | 13 141 | 16 064 | 1 610 | 2 923 | 22.2 |
| 15 000 | 19 417 | 24 150 | 2 758 | 4 733 | 24.4 |
| 25 000 | 24 341 | 29 472 | 2 035 | 5 131 | 21.1 |
| 30 000 | 26 320 | 31 483 | 1 969 | 5 163 | 19.6 |
| 40 000 | 30 056 | 34 904 | 1 716 | 4 848 | 16.1 |
| 50 000 | 35 648 | 39 569 | 1 576 | 3 921 | 11.0 |
| 60 000 | 40 949 | 45 090 | 1 788 | 4 141 | 10.1 |
| 75 000 | 48 699 | 53 426 | 1 996 | 4 727 | 9.7 |
| 100 000 | 62 108 | 66 437 | 1 699 | 4 330 | 7.0 |
| 125 000 | 75 203 | 79 819 | 1 699 | 4 616 | 6.1 |

Note: Figures have been rounded off, so the total may not correspond to the total indicated.

1 For this household, disposable income is equal to the sum of the earned income of the household, transfer payments and refundable tax credits, less income taxes and mandatory contributions paid by the income-earner (Québec Pension Plan, Employment Insurance, Québec parental insurance plan and public prescription drug insurance plan) less child care expenses. Disposable income reflects the Québec and federal systems.

2 Single-parent family with one child age 3.

3 Including tax relief measures and changes in transfer payments to individuals.

4 Including changes in worker contributions.

Source: *Disposable income calculator*, website of the ministère des Finances (www.finances.gouv.qc.ca).

## ■ Childless couple

For a childless couple, the increase in disposable income in 2009 compared to 2003 is:

— $840, i.e. an increase of 8.0%, if there is no income;

— $2 348, i.e. an increase of 10.5%, if income is $25 000;

— $2 221, i.e. an increase of 6.2%, if income is $50 000;

— $3 357, i.e. an increase of 6.7%, if income is $75 000;

— $3 684, i.e. an increase of 5.8%, if income is $100 000.

TABLE 22

**Disposable income[1] in 2003 and 2009 of a childless couple[2] – including the impact of Québec and federal measures**

| Household earned income | Disposable income | | Change from 2003 to 2009 | | |
|---|---|---|---|---|---|
| | 2003 | 2009 | Impact of Québec measures[3] | Total: Québec and federal[4] | |
| | ($) | ($) | ($) | ($) | (%) |
| None | 10 552 | 11 392 | 776 | 840 | 8.0 |
| 15 000 | 14 959 | 18 190 | 794 | 3 230 | 21.6 |
| 25 000 | 22 388 | 24 736 | 388 | 2 348 | 10.5 |
| 30 000 | 24 890 | 27 360 | 1 025 | 2 470 | 9.9 |
| 40 000 | 29 720 | 32 449 | 1 328 | 2 730 | 9.2 |
| 50 000 | 35 883 | 38 103 | 1 231 | 2 221 | 6.2 |
| 60 000 | 41 813 | 44 224 | 1 463 | 2 410 | 5.8 |
| 75 000 | 50 103 | 53 460 | 2 063 | 3 357 | 6.7 |
| 100 000 | 63 675 | 67 360 | 2 175 | 3 684 | 5.8 |
| 125 000 | 76 738 | 80 932 | 2 175 | 4 194 | 5.5 |

Note: Figures have been rounded off, so the total may not correspond to the total indicated.

1 For this household, disposable income is equal to the sum of the earned income of the head of household, transfer payments and refundable tax credits, less income taxes and mandatory contributions paid by the income-earner (Québec Pension Plan, Employment Insurance, Québec parental insurance plan and public prescription drug insurance plan). Disposable income reflects the Québec and federal systems.

2 Childless couple with one earned income.

3 Including tax relief measures and changes in transfer payments to individuals.

4 Including changes in worker contributions.

Source: *Disposable income calculator*, website of the ministère des Finances (www.finances.gouv.qc.ca).

## ■ Person living alone

For a person living alone, the increase in disposable income in 2009 compared to 2003 is:

— $535, i.e. an increase of 7.7%, if there is no income;

— $1 035, i.e. an increase of 5.3%, if income is $25 000;

— $1 657, i.e. an increase of 4.9%, if income is $50 000;

— $2 794, i.e. an increase of 5.8%, if income is $75 000;

— $3 121, i.e. an increase of 5.1%, if income is $100 000.

TABLE 23

**Disposable income[1] in 2003 and 2009 of a person living alone[2] – including the impact of Québec and federal measures**

| Household earned income | Disposable income | | Change from 2003 to 2009 | | |
|---|---|---|---|---|---|
| | 2003 | 2009 | Impact of Québec measures[3] | Total: Québec and federal[4] | |
| | ($) | ($) | ($) | ($) | (%) |
| None | 6 952 | 7 487 | 503 | 535 | 7.7 |
| 15 000 | 13 543 | 15 441 | 506 | 1 897 | 14.0 |
| 25 000 | 19 691 | 20 726 | 488 | 1 035 | 5.3 |
| 30 000 | 22 450 | 24 002 | 866 | 1 552 | 6.9 |
| 40 000 | 27 477 | 29 475 | 984 | 1 998 | 7.3 |
| 50 000 | 33 640 | 35 297 | 944 | 1 657 | 4.9 |
| 60 000 | 39 571 | 41 418 | 1 176 | 1 847 | 4.7 |
| 75 000 | 47 860 | 50 654 | 1 776 | 2 794 | 5.8 |
| 100 000 | 61 432 | 64 554 | 1 888 | 3 121 | 5.1 |
| 125 000 | 74 495 | 78 126 | 1 888 | 3 631 | 4.9 |

Note: Figures have been rounded off, so the total may not correspond to the total indicated.

1 For this household, disposable income is equal to the sum of the earned income of the household, transfer payments and refundable tax credits, less income taxes and mandatory contributions paid by the income-earner (Québec Pension Plan, Employment Insurance, Québec parental insurance plan and public prescription drug insurance plan). Disposable income reflects the Québec and federal systems.

2 Person living alone who does not share a dwelling.

3 Including tax relief measures and changes in transfer payments to individuals.

4 Including changes in worker contributions.

Source: *Disposable income calculator*, website of the ministère des Finances (www.finances.gouv.qc.ca).

## ❑ A significant reduction in the difference in tax burden compared to the other provinces

The reduction in the tax burden since 2003 has made Québec's tax system more competitive. Today, Quebecers are no longer the most heavily taxed people in North America.

— In six years, the difference in tax burden between Québec and the other provinces has been reduced by 40%, falling from $2.1 billion in 2003 to $1.3 billion in 2009.

— In 2009, three provinces – Nova Scotia, Prince Edward Island and Manitoba – have a higher personal income tax burden than Québec.

TABLE 24

**Personal income tax**
**Tax burden differential between Québec and the other provinces by applying the tax structure of the other provinces to Québec[1]**
(millions of dollars)

| | 2003 | 2008[2] | 2009[2] |
|---|---|---|---|
| **Differential Québec – other provinces[3]** | | | |
| Alberta | 4 449 | 3 589 | 5 127 |
| British Columbia | 3 569 | 3 292 | 3 109 |
| Ontario | 5 642 | 2 735 | 2 648 |
| Saskatchewan | 2 394 | 2 535 | 2 645 |
| Newfoundland and Labrador | - 965 | 109 | 760 |
| New Brunswick | 1 701 | - 341 | 289 |
| Manitoba | 692 | - 702 | - 856 |
| Prince Edward Island | 1 063 | - 832 | - 1 123 |
| Nova Scotia | 664 | - 898 | - 1 083 |
| ***Average differential*** | ***2 134*** | ***1 054*** | ***1 280*** |
| **DIFFERENTIAL COMPARED TO 2003 (%)** | | **– 50.6** | **– 40.0** |

1 Taking into account health contributions and family assistance measures (e.g., family allowances and refundable tax credits).
2 Taking into account the measures of the 2008-2009 budgets of Québec, the federal government and the other provinces, as well as the economic statements published in the fall of 2008.
3 The 16.5% Québec abatement is removed from the tax burden differential.

## 2.4.2 An improvement in the competitiveness of Québec companies

Considering all the tax relief measures granted since 2003, the tax burden on companies will be reduced by almost $2 billion in 2011-2012, a drop of 20%.

— These measures stimulate investment and improve the competitiveness of Québec companies, in particular because of the elimination of the tax on capital.

TABLE 25

**Corporate tax reduction to stimulate investment**
(millions of dollars)

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| **Elimination of the tax on capital** | | | | | |
| Elimination of the tax on capital as of December 31, 2010 | - 749 | - 976 | - 1 275 | - 1 649 | - 2 036 |
| Elimination of the capital tax in 2008 for manufacturing companies | — | - 220 | - 225 | - 92 | — |
| **Subtotal** | **- 749** | **- 1 196** | **- 1 500** | **- 1 741** | **- 2 036** |
| **Refundable investment tax credit and other tax assistance for the resource regions** | | | | | |
| 5% investment tax credit | — | - 30 | - 55 | - 70 | - 90 |
| Investment tax credit at the higher rate of 20%, 30% or 40% in the resource regions and other measures[1] | — | - 20 | - 54 | - 96 | - 115 |
| **Subtotal** | **—** | **- 50** | **- 109** | **- 166** | **- 205** |
| **Refundable tax credit for the development of e-business** | **—** | **- 30** | **- 59** | **- 84** | **- 150** |
| **Measures of the 2009-2010 Budget** | | | | | |
| Reduction in tax payable by SMEs[2] | — | — | - 13 | - 15 | - 17 |
| Accelerated depreciation for: | | | | | |
| - manufacturing and processing equipment | — | — | — | — | - 45 |
| - computer hardware | — | — | - 18 | - 41 | 5 |
| **Subtotal** | **—** | **—** | **- 31** | **- 56** | **- 57** |
| **Other corporate tax reduction measures and financing measure[3]** | **274** | **386** | **401** | **432** | **493** |
| **TOTAL** | **- 475** | **- 890** | **- 1 298** | **- 1 614** | **- 1 955** |

Note: Figures have been rounded off, so the total may not correspond to the total indicated.

1 One-year extension of the tax credits for processing in the resource regions, as well as extension of and change to the tax credit for Gaspésie and certain maritime regions of Québec and the tax credit for the Vallée de l'aluminium.

2 Increase in the amount of income eligible for the reduced tax rate for small businesses from $400 000 to $500 000.

3 The other corporate tax reduction measures include the implementation of the reduced tax rate for SMEs, various enhancements to depreciation deductions for certain investments and the improvements to the refundable tax credit for film and television production. The financing measure is the rise in the general corporate income tax rate to partially fund the elimination of the capital tax.

## ❑ Québec's tax system is favourable for investment

The measures taken by Québec to lower the corporate tax burden mean that companies that invest enjoy a competitive tax system.

— Besides the elimination of the tax on capital by the end of 2010, companies benefit from an investment tax credit on acquisitions of manufacturing and processing equipment.

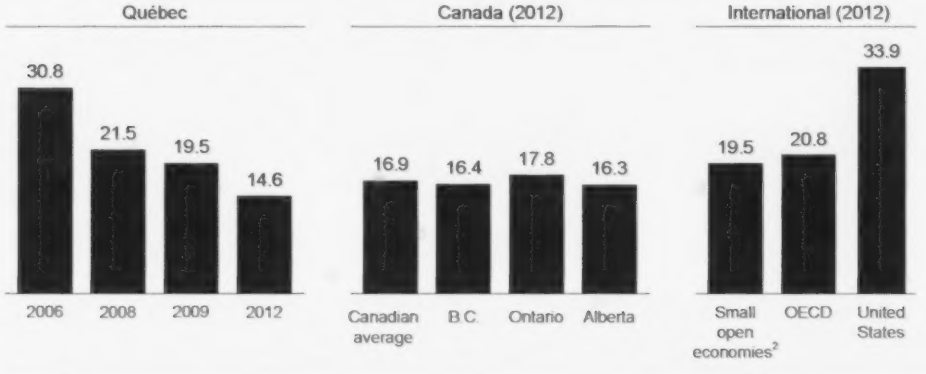
— In addition, Québec introduced, in the early 1990s, a value-added tax that significantly reduces the cost of investing for companies because of input tax rebates.

— Consequently, the effective marginal tax rate (EMTR) on investment in Québec, which will be 14.6% in 2012, is lower than that of most provinces.

— Québec's EMTR for 2012 compares well with the average rates observed in other countries.

CHART 41

**Comparison of effective marginal tax rates (EMTR)[1] on investment**
(per cent)




1 EMTRs are indicators of the impact of the tax system on new investments. They represent the effect of all tax expenses and rules affecting the return on capital invested. They include, in particular, the capital tax, sales tax, corporate income tax, depreciation rules and rates as well as accounting methods for inventories.

2 Economies that are highly dependent on trade with larger economic partners. For example, Switzerland, Australia, Ireland, Sweden and Norway are small open economies.

Sources: C.D. Howe Institute and ministère des Finances du Québec.

## ❑ A competitive corporate income tax rate in Québec

The competitiveness of the tax system applicable to companies in Québec is also tied to the combined tax rate on corporate profits.

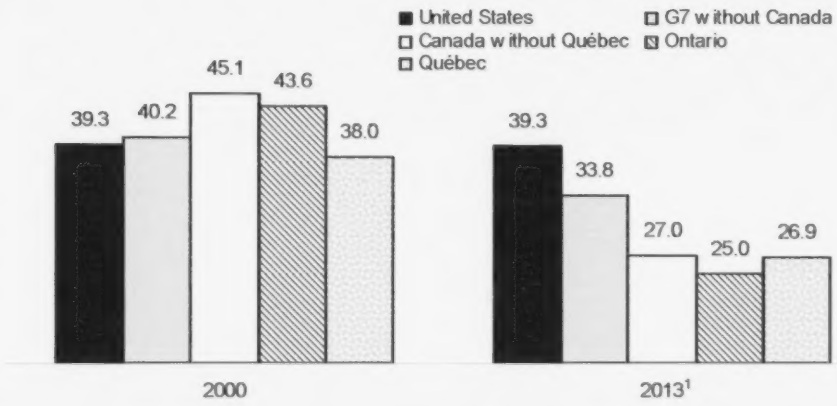
Including the Québec and federal tax systems, the combined tax rate on corporate profits will be 26.9% in 2013.

— This rate will be competitive in Canada despite the announcements of corporate tax reductions made recently by many provinces, Ontario in particular.

— In 2013, the combined tax rate on corporate profits will be lower than the forecast average rate in the G7 countries.

CHART 42

**Change in statutory corporate income tax rates**
(per cent)




1 The rates shown for the G7 countries and the United States are for 2012

## ❑ Manufacturing sector: a tax system that is competitive internationally

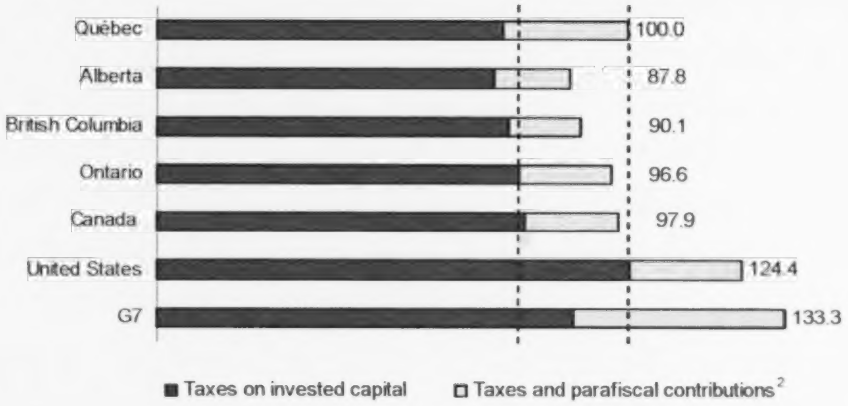
Including all taxes applicable on manufacturing business location and operating costs, Québec offers a tax system that is competitive internationally.

— According to the results of the KPMG *Competitive Alternatives* model, Québec's tax competitiveness index confirms that Québec offers companies in the manufacturing sector one of the lowest tax costs on investment.

— By adding tax and near-tax expenses on payroll, Québec's tax competitiveness index indicates that the tax cost is lower than that in the United States and lower than the average in the G7 countries, and is comparable with the Canadian average.

CHART 43

**Tax competitiveness index[1] – Manufacturing sector**
(index: Québec = 100)




1 The tax competitiveness index is obtained by applying the tax system in force in a given jurisdiction to business location and operating costs in Montréal for seven manufacturing activities, for a period of ten years (from 2009 to 2018).

2 Tax and near-tax expenses in Québec include employer contributions to the Health Services Fund, the Québec Pension Plan, the Québec parental insurance plan, the Commission des normes du travail, the Commission de la santé et de la sécurité du travail and employment insurance.

Sources: KPMG *Competitive Alternatives* model and ministère des Finances du Québec.

## 2.5 Detailed table of the impact on cash resources

**Plan to support jobs and prepare for economic recovery – Impact on cash resources**
(millions of dollars)

| | Revised commitment[1] 2009 | Forecast commitment 2010 | Total | Population affected |
|---|---|---|---|---|
| **ECONOMIC AND FINANCIAL UPDATE, Fall 2009 – *RENFORT* PROGRAM INITIATIVES** | **100.0** | **700.0** | **800.0** | |
| **MEASURES OF THE 2009-2010 BUDGET** | | | | |
| **1. ADDITIONAL IMMEDIATE ACTIONS TO SUPPORT BUSINESSES AND WORKERS** | | | | |
| **Measures to increase the cash resources and capitalization of businesses** | | | | |
| – Creation of a $500-million emergency fund for the recovery of businesses | 200.0 | 300.0 | **500.0** | |
| – New stock savings plan II to foster the capitalization of public companies | 65.0 | 100.0 | **165.0** | |
| – Fostering the growth of Fondaction | 35.0 | 35.0 | **70.0** | |
| – $60 million to expand the envelope of the FIER-Régions | — | 90.0 | **90.0** | |
| – Improvement to the *Renfort* program to benefit the forest and tourism sectors | 200.0 | — | **200.0** | 150 businesses |
| – Deferral of repayment of the loan envelope of local investment funds | — | 25.0 | **25.0** | 600 businesses |
| **Subtotal** | **500.0** | **550.0** | **1 050.0** | |
| **Employment Pact: increase from $1.0 billion to $1.5 billion** | | | | |
| – Additional support to develop human potential | | | | |
| • Increase in Emploi-Québec training allowances | 102.2 | 125.1 | **227.3** | 90 000 individuals |
| • Improvement to the Wage Subsidy measure | 9.9 | 11.2 | **21.1** | 3 500 businesses |
| • Renewal of support measures for forest sector workers | 14.0 | 14.0 | **27.9** | 13 500 individuals |
| • Improvement to the Targeted Initiative for Older Workers (TIOW) | 19.0 | 19.0 | **38.0** | 2 800 individuals |
| • Broadening to all activity sectors of the support program for workers affected by collective dismissals (PSTLC) | 4.9 | 14.0 | **18.9** | 7 500 individuals |
| • Broadening to all activity sectors of the Support Program for Older Workers (SPOW) | 1.0 | 2.0 | **3.0** | 400 individuals |
| **Subtotal** | **151.0** | **185.3** | **336.2** | |

## Plan to support jobs and prepare for economic recovery – Impact on cash resources (continued)

(millions of dollars)

| | Revised commitment[1] 2009 | Forecast commitment 2010 | Total | Population affected |
|---|---|---|---|---|
| – Additional support for training | | | | |
| • Broadening to the forest and mining sectors of the refundable tax credit for training | 6.7 | 10.0 | **16.7** | 3 000 businesses |
| • Increase in the government's financial participation in funding training projects (MFOR-Entreprises) | 20.5 | 17.0 | **37.5** | 13 650 businesses |
| • Increase in the government's financial participation in funding training projects as part of large-scale economic projects | 9.9 | — | **9.9** | 40 businesses |
| • Increase in concerted activities for employment | 8.0 | 6.0 | **14.0** | 850 businesses |
| • Broadening to all activity sectors of the measure encouraging early retirement for older workers (ARTT) | 4.0 | 6.0 | **10.0** | 1 000 individuals |
| • Improvement to the program to support enterprises that risk being affected by the economic slowdown | 25.0 | 25.0 | **50.0** | 760 businesses |
| **Subtotal** | **74.1** | **64.0** | **138.1** | |
| – Additional support to value work | | | | |
| • Adjustments to the financial assistance provided by certain Emploi-Québec measures | 10.5 | — | **10.5** | 1 250 individuals |
| • Broadening of eligibility for the work premium supplement to participants in the Alternative jeunesse program | 0.9 | 0.9 | **1.8** | 1 000 individuals |
| **Subtotal** | **11.4** | **0.9** | **12.3** | |
| **Subtotal – Employment Pact** | **236.5** | **250.2** | **486.6** | |
| **Support for forest development** | | | | |
| – Forest regeneration | | | | |
| • Improvement to the Silvicultural Investment Program | 22.0 | — | **22.0** | |
| • Financing the production of seedlings | 25.6 | — | **25.6** | |
| • Assistance for forest road maintenance in controlled zones (ZECs) | 1.0 | 1.0 | **2.0** | |

## Plan to support jobs and prepare for economic recovery – Impact on cash resources (continued)

(millions of dollars)

| | Revised commitment[1] 2009 | Forecast commitment 2010 | Total | Population affected |
|---|---|---|---|---|
| – New markets for the forest sector | | | | |
| • Development of high-value-added products | 10.0 | 5.0 | **15.0** | |
| • Forest certification program for private woodlot owners[2] | — | 1.0 | **1.0** | 150 individuals |
| **Subtotal** | **58.6** | **7.0** | **65.6** | |
| **Corporate tax reduction to stimulate investment** | | | | |
| – Increase in the amount of income eligible for the reduced tax rate for small businesses from $400 000 to $500 000 | 13.0 | 15.0 | **28.0** | 5 900 businesses |
| – Extension of accelerated depreciation for manufacturing and processing equipment | — | — | **—** | 15 000 businesses |
| – 100% accelerated depreciation for computer hardware | 18.0 | 41.0 | **59.0** | 70 000 businesses |
| **Subtotal** | **31.0** | **56.0** | **87.0** | |
| **Improvements to certain tax credits for culture** | **1.5** | **2.6** | **4.1** | 100 businesses |
| **TOTAL – ADDITIONAL IMMEDIATE ACTIONS TO SUPPORT BUSINESSES AND WORKERS** | **827.6** | **865.8** | **1 693.3** | |
| **2. PREPARING QUÉBEC FOR ECONOMIC RECOVERY** | | | | |
| **Northern Québec: a new site of sustainable development** | | | | |
| – Preserving the environment and promoting the value of northern Québec's natural heritage | | | | |
| • Program to consolidate outfitting operations | 1.0 | 1.2 | **2.2** | 250 businesses |
| • Creation of protected areas | 0.6 | 0.6 | **1.2** | |
| • Creation of five national parks | — | — | **—** | |
| – Improving infrastructure in northern Québec | | | | |
| • Construction of a road to the Otish Mountains | 1.8 | 7.8 | **9.6** | |
| • Repair of Highway 389 between Baie-Comeau and Fermont | 5.4 | 18.5 | **23.9** | |
| • Improvement of northern airports[3] | 27.9 | 20.4 | **48.3** | |
| **Subtotal** | **36.7** | **48.5** | **85.2** | |

## Plan to support jobs and prepare for economic recovery – Impact on cash resources (continued)

(millions of dollars)

| | Revised commitment[1] 2009 | Forecast commitment 2010 | Total | Population affected |
|---|---|---|---|---|
| **Stimulating gas exploration in Québec** | | | | |
| – Five-year royalty holiday for gas development | — | 0.9 | **0.9** | 29 businesses |
| – SGF support for the development of the gas exploration industry in Québec | — | — | **—** | |
| – Program for the acquisition of geoscientific knowledge | 2.0 | 2.0 | **4.0** | 29 businesses |
| – Strategic environmental assessment program | 1.0 | 1.0 | **2.0** | |
| **Subtotal** | **3.0** | **3.9** | **6.9** | |
| **Supporting our technology companies** | | | | |
| – $125 million to create seed funds | 25.0 | 100.0 | **125.0** | 50 businesses |
| – $825 million to finance venture capital funds[4] | 200.0 | 300.0 | **500.0** | 175 businesses |
| – Introduction of a tax holiday encouraging the commercialization of intellectual property | — | 0.4 | **0.4** | 200 businesses |
| **Subtotal** | **225.0** | **400.4** | **625.4** | |
| **Québec, a leader in environmental protection and environmental technologies** | | | | |
| – Development of green energy technologies | 4.0 | 4.0 | **8.0** | |
| – New refundable tax credit for a new green vehicle | 2.3 | 3.3 | **5.6** | 19 000 acquirers |
| – Financial assistance program for capital assets related to bioenergy production | — | — | **—** | |
| – Acceleration of the modernization of public dams | 22.0 | 40.0 | **62.0** | |
| – National parks: expansion in southern Québec | 7.0 | 20.0 | **27.0** | |
| – Resiting of snowmobile trails outside Monts-Valin and Mont-Tremblant national parks | 0.4 | 1.0 | **1.4** | |
| **Subtotal** | **35.7** | **68.3** | **104.0** | |
| **TOTAL – PREPARING QUÉBEC FOR ECONOMIC RECOVERY** | **300.4** | **521.1** | **821.5** | |

## Plan to support jobs and prepare for economic recovery – Impact on cash resources (continued)

(millions of dollars)

| | Revised commitment[1] 2009 | Forecast commitment 2010 | Total | Population affected |
|---|---|---|---|---|
| **3. SUPPORTING THE FAMILY AND WELL-BEING OF QUEBECERS** | | | | |
| **Supporting families** | | | | |
| – Improvement of the refundable tax credit for child care expenses | 22.0 | 22.0 | **44.0** | 100 000 families |
| – Streamlining of the Québec education savings incentive | — | — | — | |
| – Increase in the maximum withdrawal limit under the Home Buyers Plan to $25 000 | 5.0 | 5.0 | **10.0** | 10 000 taxpayers |
| – Deduction for loss of value of investments in an RRSP/RRIF after death | — | — | — | 17 000 taxpayers |
| **Subtotal** | **27.0** | **27.0** | **54.0** | |
| **Improving the quality of life of seniors** | | | | |
| – The "Age-Friendly Municipalities" (AFM) initiative | 1.0 | 1.0 | **2.0** | 50 municipalities |
| – Action plan to counter elder abuse | 4.0 | 4.0 | **8.0** | |
| – Financial assistance for home adaptations for independent seniors | 2.0 | 2.0 | **3.9** | 1 200 households |
| **Subtotal** | **7.0** | **7.0** | **13.9** | |
| **Investments of $370 million for housing construction and renovation** | | | | |
| – Investment of $200 million for the construction of 3 000 community housing units | — | 38.0 | **38.0** | 3 000 households |
| – Financial assistance for low-income owner-occupants living in rural areas (RénoVillage) | 25.0 | 25.0 | **50.0** | 6 000 households |
| – Enhancement of shelters for victims of domestic violence | 2.5 | 3.0 | **5.5** | 370 individuals |
| – Financial assistance for emergency repairs for low-income owner-occupants | 3.3 | 3.3 | **6.5** | 1 300 households |
| – Financial support for home adaptations for people with disabilities | 22.3 | 22.3 | **44.5** | 2 500 individuals |
| – Home improvements in rundown areas (Rénovation Québec) | 20.3 | 101.3 | **121.5** | 17 000 households |
| **Subtotal** | **73.3** | **192.8** | **266.0** | |

## Plan to support jobs and prepare for economic recovery – Impact on cash resources (continued)

(millions of dollars)

| | Revised commitment[1] 2009 | Forecast commitment 2010 | Total | Population affected |
|---|---|---|---|---|
| **Investments for social development** | | | | |
| – Injection of $5 million in the Réseau d'investissement social du Québec[2] | — | 5.0 | **5.0** | 100 businesses |
| – Funding of a study for the Chantier de l'économie sociale | 0.3 | — | **0.3** | |
| – Extension of support for the Réseau québécois du crédit communautaire | 1.8 | 0.6 | **2.4** | 21 organizations |
| – Promoting the development of female entrepreneurship[2] | — | 3.0 | **3.0** | 2 700 women |
| **Subtotal** | **2.1** | **8.6** | **10.7** | |
| **TOTAL – SUPPORTING THE FAMILY AND WELL-BEING OF QUEBECERS** | **109.3** | **235.3** | **344.6** | |
| **SUBTOTAL – MEASURES OF THE 2009-2010 BUDGET** | **1 237.3** | **1 622.2** | **2 859.4** | |
| **ADDITIONAL INVESTMENTS BY LOTO-QUÉBEC AND THE SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC[5]** | **44.9** | **141.0** | **185.9** | |
| **GRAND TOTAL, MEASURES OF THE 2009-2010 BUDGET** | **1 282.2** | **1 763.2** | **3 045.3** | |
| **PRIOR ANNOUNCEMENTS** | | | | |
| **1. ECONOMIC STATEMENT, JANUARY 14, 2009** | | | | |
| – Introduction of a refundable tax credit for renovation and home improvements | 250.0 | — | **250.0** | 170 000 households |
| – Contribution of $1 billion to the SGF to invest in Québec companies | 600.0 | 400.0 | **1 000.0** | |
| – Improvement to the tax credit for Québec film and television production | 10.0 | 20.0 | **30.0** | 385 businesses |
| – Acceleration of the 2008-2013 Québec Infrastructures Plan | 1 033.5 | 407.1 | **1 440.6** | |
| **Subtotal** | **1 893.5** | **827.1** | **2 720.6** | |
| **2. REDUCTION OF 25% OF MINIMUM WITHDRAWALS FROM RRIFs IN 2008 ANNOUNCED DECEMBER 19, 2008** | **40.0** | — | **40.0** | 100 000 taxpayers |

## Plan to support jobs and prepare for economic recovery – Impact on cash resources (continued)

(millions of dollars)

| | Revised commitment[1] 2009 | Forecast commitment 2010 | Total | Population affected |
|---|---|---|---|---|
| **3. UPDATE ON QUÉBEC'S ECONOMIC AND FINANCIAL SITUATION, TABLED NOVEMBER 4, 2008** | | | | |
| – Increase from $1 500 to $2 000, in 2009, in the amount of the tax credit for retirement income | 24.0 | 27.0 | **51.0** | 350 000 households |
| – Increase from 1.58% to 2.36% in the indexing rate of the personal income tax system for 2009 | 136.0 | 150.0 | **286.0** | 4 300 000 households |
| – Full indexing of 2.36% of last-resort benefits for 2009, including that of households fit for work | 35.0 | 45.0 | **80.0** | 334 000 households |
| – Increase in Child Assistance and the Work Premium | 16.0 | 26.0 | **42.0** | 820 000 households |
| – Additional financing of $1 billion for businesses, mainly SMEs (*Renfort* program) | 1 000.0 | — | **1 000.0** | 900 businesses |
| **Subtotal** | **1 211.0** | **248.0** | **1 459.0** | |
| **4. 2007-2012 QUÉBEC INFRASTRUCTURES PLAN: IMPACT COMPARED TO 2007** | **3 404.6** | **3 045.2** | **6 449.8** | |
| **5. ELIMINATION OF THE TAX ON CAPITAL: IMPACT OF RATE DECREASES OF JANUARY 1, 2009 AND 2010** | **299.0** | **673.0** | **972.0** | 75 000 businesses |
| **SUBTOTAL – PRIOR ANNOUNCEMENTS** | **6 848.1** | **4 793.3** | **11 641.4** | |
| **GRAND TOTAL OF MEASURES TO SUPPORT JOBS AND PREPARE FOR ECONOMIC RECOVERY** | **8 230.3** | **7 256.5** | **15 486.7** | |

Note: Figures have been rounded off, so they may not add up to the total indicated.

1 Including, if applicable, contributions of partners, i.e. the private sector and other levels of government.
2 These programs are being developed. The amounts stipulated in 2009 are carried over to 2010.
3 A carry-over of $7.6 million is forecast for subsequent years.
4 A carry-over of $325.0 million is forecast for subsequent years.
5 A carry-over of $3.6 million is forecast for subsequent years.

# PART THREE:
## THE GOVERNMENT'S FINANCIAL POSITION

# 3. THE GOVERNMENT'S FINANCIAL POSITION

## 3.1 Higher deficits in 2009-2010 and 2010-2011

The *Update on Québec's Economic and Financial Situation* mainly shows information on the government's revenue to date, the expected adjustment to expenditure, in particular, debt service and the financial situation of organizations.

### ❑ The budget remains balanced in 2008-2009

The real results show that the budget was balanced in 2008-2009, by drawing on the stabilization reserve.

### ❑ 2009-2010: an additional shortfall of $749 million

For 2009-2010, negative adjustments of $749 million will raise the deficit to $4.7 billion. This result is attributable to:

— a more severe economic slowdown resulting in a downward adjustment to own-source revenue of $475 million excluding government enterprises;

— a decline in revenue from government enterprises of $27 million;

— an increase in program spending of $150 million to fund the rise in the *Renfort* program's envelope;

— a $50-million rise in debt service;

— an upward adjustment to forecast deficits of consolidated entities of $200 million;

— a $300-million provision for revenue shortfalls.

These deteriorations are partially offset by:

— positive adjustments to federal transfers of $315 million;

— additional drawings from the stabilization reserve of $138 million.

## ❑ 2010-2011: a $915-million increase in the deficit

For 2010-2011, the budget deficit is $4.7 billion, an increase of $915 million as a result of:

— a negative adjustment of $225 million to own-source revenue excluding government enterprises, arising from the less favourable economic outlook;

— a drop in revenue from government enterprises of $283 million, mainly due to a $300-million adjustment to Hydro-Québec's forecast net earnings, as announced in the new strategic plan released July 30, 2009;

— an increase in program spending of $170 million including $150 million for the increase in the *Renfort* program's envelope;

— a $194-million decline in profits from consolidated entities including, among others, La Financière agricole du Québec;

— a $118-million rise in debt service resulting in particular from higher deficits than forecast.

These adjustments are mitigated by:

— a $76-million increase in revenues from federal transfers, despite a decline in equalization revenue of $225 million.

TABLE 26

## Summary of adjustments to the budgetary balance since the 2009-2010 Budget

(millions of dollars)

| | 2009-2010[P] | | | 2010-2011[P] | | |
|---|---|---|---|---|---|---|
| | 2009-2010 Budget | Adjustments | Fall 2009 | 2009-2010 Budget | Adjustments | Fall 2009 |
| **BUDGETARY TRANSACTIONS** | | | | | | |
| Own-source revenue excluding government enterprises | | | | | | |
| – Personal income tax and Health Services Fund | 23 800 | – 450 | 23 350 | 25 064 | – 500 | 24 564 |
| – Consumption taxes | 13 184 | 100 | 13 284 | 13 569 | 200 | 13 769 |
| – Corporate taxes | 3 266 | – 125 | 3 141 | 3 268 | 75 | 3 343 |
| – Other | 2 362 | — | 2 362 | 2 413 | — | 2 413 |
| | 42 612 | – 475 | 42 137 | 44 314 | – 225 | 44 089 |
| Government enterprises | | | | | | |
| – Hydro-Québec | 2 700 | — | 2 700 | 2 700 | – 300 | 2 400 |
| – Other | 2 059 | – 27 | 2 032 | 2 113 | 17 | 2 130 |
| | 4 759 | – 27 | 4 732 | 4 813 | – 283 | 4 530 |
| Federal transfers | | | | | | |
| – Equalization | 8 355 | — | 8 355 | 8 469 | – 225 | 8 244 |
| – Other | 6 486 | 315 | 6 801 | 6 421 | 301 | 6 722 |
| | 14 841 | 315 | 15 156 | 14 890 | 76 | 14 966 |
| **Total budgetary revenue** | **62 212** | **– 187** | **62 025** | **64 017** | **– 432** | **63 585** |
| Program spending | – 59 989 | – 150 | – 60 139 | – 61 879 | – 170 | – 62 049 |
| Debt service | – 6 104 | – 50 | – 6 154 | – 6 646 | – 118 | – 6 764 |
| **Total budgetary expenditure** | **– 66 093** | **– 200** | **– 66 293** | **– 68 525** | **– 288** | **– 68 813** |
| **Net results of consolidated entities** | **355** | **– 200** | **155** | **563** | **– 194** | **369** |
| Provision for revenue shortfalls | — | – 300 | – 300 | | | |
| Plan to return to balanced budgets | | | | 1 065 | — | 1 065 |
| **DEFICIT** | **– 3 526** | **– 887** | **– 4 413** | **– 2 880** | **– 914** | **– 3 794** |
| **BALANCED BUDGET ACT** | | | | | | |
| Deposit of dedicated revenues in the Generations Fund | – 715 | — | – 715 | – 880 | – 1 | – 881 |
| Stabilization reserve | 295 | 138 | 433 | — | — | — |
| **BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT** | **– 3 946** | **– 749** | **– 4 695** | **– 3 760** | **– 915** | **– 4 675** |
| *As a % of GDP* | *– 1.3* | *– 0.3* | *– 1.6* | *– 1.2* | *– 0.3* | *– 1.5* |

Note: In the case of adjustments, a negative sign means a decline in revenue or a rise in expenditure.
P Projections.

## 3.2 Results for 2008-2009: the budget remains balanced

Compared to the situation forecast in the budget last March 19, the results released in the *2008-2009 Public Accounts* show that for the purposes of the Balanced Budget Act, the budget was balanced taking the stabilization reserve into account.

Budgetary revenue was higher by $437 million. The main reason for the increase was revenue from government enterprises, including $235 million for Hydro-Québec. Own-source revenue, excluding government enterprises, and federal transfers were also adjusted upward by $59 million and $99 million respectively.

Moreover, program spending was $1 150 million higher than forecast in the last budget. This rise is attributable to:

— the payment of $200 million to fund the trust to keep the Université du Québec à Montréal (UQAM) protected from the financial consequences of the Îlot Voyageur once the project is restructured to the government's satisfaction. In addition, there is the payment to UQAM of a conditional grant of $65 million for the years 2005-2006 to 2007-2008. It should be noted that these expenditure adjustments do not increase the deficit. These amounts are included in the budgetary balance of the consolidated entities;

— the recognition of $637 million of expenditure relating, on the one hand, to the rise in certain accounting provisions such as the $334-million provision for doubtful accounts and the $208-million provision for losses on guaranteed financial interventions and, on the other hand, to the harmonization of the accounting standards relating to fixed assets of establishments of the health and social services and the education networks with those of the government, for an increase of $95 million;

— additional spending of $248 million incurred, among others, to raise the envelope of the ministère de la Santé et des Services sociaux by $88 million to cover all the additional costs of health programs and by $50 million to maintain and improve infrastructures of the ministère des Transports.

The debt service of the Consolidated Revenue Fund for 2008-2009 is $85 million less than forecast in the budget last March. This improvement is chiefly attributable to the fact that the value of the Canadian dollar is higher than was forecast at the end of 2008-2009 and the revenues of the Sinking Fund for borrowings were higher than expected.

The results of consolidated entities improved by $675 million compared to the March 2009 forecasts. This improvement is attributable, among other things, to the creation of a $200-million trust to protect UQAM from the financial consequences of the Îlot Voyageur project. In addition, the improvement in consolidated entities stems from delays in 2009-2010 in the implementation of certain projects initially planned for 2008-2009. In this regard, mention should be made of certain municipal infrastructure projects financed by the Société de financement des infrastructures locales du Québec and those stipulated in the Green Fund's action plan on climate change.

TABLE 27

**Adjustments to the budgetary balance for 2008-2009**
(millions of dollars)

| | 2008-2009 | | |
|---|---|---|---|
| | **2009-2010 Budget** | **Adjustments** | **Real results** |
| **BUDGETARY TRANSACTIONS** | | | |
| Own-source revenue excluding government enterprises | 43 821 | 59 | 43 880 |
| Government enterprises | 4 734 | 279 | 5 013 |
| Federal transfers | 13 924 | 99 | 14 023 |
| **Total budgetary revenue** | **62 479** | **437** | **62 916** |
| Program spending | – 57 400 | – 1 150 | – 58 550 |
| Debt service | – 6 589 | 85 | – 6 504 |
| **Total budgetary expenditure** | **– 63 989** | **– 1 065** | **– 65 054** |
| **Net results of consolidated entities** | **205** | **675** | **880** |
| **DEFICIT** | **– 1 305** | **47** | **– 1 258** |
| **BALANCED BUDGET ACT** | | | |
| Deposit of dedicated revenues in the Generations Fund | – 569 | – 18 | – 587 |
| Stabilization reserve | 1 874 | – 29 | 1 845 |
| **BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT** | **0** | **0** | **0** |

## 3.3 Detailed adjustments in 2009-2010 and 2010-2011

### 3.3.1 Revenue adjustments

Budgetary revenue is adjusted downward by $187 million in 2009-2010 and $432 million in 2010-2011.

TABLE 28

**Adjustments to budgetary revenue since the 2009-2010 Budget**
(millions of dollars)

| | 2009-2010P | 2010-2011P |
|---|---|---|
| **Adjustments to taxes** | | |
| Personal income tax and Health Services Fund | – 450 | – 500 |
| Consumption taxes | 100 | 200 |
| Corporate taxes | – 125 | 75 |
| **Total adjustments to taxes** | **– 475** | **– 225** |
| Government enterprises | – 27 | – 283 |
| **Total adjustments to own-source revenue** | **– 502** | **– 508** |
| **Federal transfers** | **315** | **76** |
| **ADJUSTMENTS TO BUDGETARY REVENUE** | **– 187** | **– 432** |

P Projections

#### ❑ Own-source revenue

#### ■ Taxes

In 2009-2010, own-source revenue is adjusted downward by $502 million compared to the budget last March, including $475 million for tax revenues.

These adjustments are attributable to:

— a $450-million decline in revenue from personal income tax reduction and contributions to the Health Services Fund. This adjustment stems from tax payable for taxation year 2008, which was less than expected. In addition, tax receipts since the beginning of the fiscal year are showing withholdings at source that are less than forecast;

— a positive adjustment of $100 million to consumption taxes. Despite a negative adjustment to consumption growth, receipts are higher than forecast and reflect, in particular, more housing starts than expected;

— a $125-million decline in revenues from corporate taxes, mainly because corporate profits are down more than expected in 2009 and refunds early in the year are higher.

For 2010-2011, own-source revenue is down $508 million, including $225 million for taxes. This adjustment stems mainly from the following factors:

— revenue from personal income tax and contributions to the Health Services Fund are adjusted downward by $500 million. This adjustment is the result of the recurrence of the adjustment in 2009-2010, but also stems from less rapid growth in employment and wages than expected in 2010;

— revenue from consumption taxes is adjusted upward by $200 million and reflects the recurrence of the adjustment in 2009-2010;

— the positive adjustment of $75 million to corporate income tax is essentially attributable to the upward revision of corporate profits in 2010.

### ■ Revenue from government enterprises

In 2009-2010, profits of government enterprises are adjusted downward by $27 million.

In 2010-2011, revenue from government enterprises, other than Hydro-Québec, is stable. The corporation expects its earnings to decline by $300 million as a result, in particular, of a less favourable outlook for selling prices on export markets than expected, lower aluminum prices and the appreciation of the Canadian dollar.

## ❑ Federal transfer revenue

Federal transfer revenue is adjusted upward by $315 million in 2009-2010 and $76 million in 2010-2011.

These adjustments stem essentially from the signature of two new agreements. The Canada-Québec Labour Market Agreement, announced April 30, 2009, results in an increase in transfer revenue of roughly $700 million over six years, i.e. $116 million per year as of 2008-2009. Moreover, the Canada-Québec Base Fund Agreement (Building Canada) announced on May 22, 2009, will result in additional revenue of $175 million over two years, i.e. $100 million in 2009-2010 and $75 million in 2010-2011.

As well, the forecast for Québec's equalization revenue is adjusted downward by $225 million in 2010-2011. According to the latest tax figures produced by the Canada Revenue Agency, the deterioration in Ontario's fiscal capacity compared to the other provinces is proving more severe than expected at the time of the budget.

Since the changes made by the federal government to the equalization program in the fall of 2008, the dynamic of this federal program is that of a closed envelope: if the economic situation of a recipient province deteriorates compared with that of the other provinces, the additional equalization to which such province is entitled is automatically subtracted from the equalization paid to the other provinces.

This "zero sum game" means that the current equalization program is unable to achieve the objective written into the Constitution. In this regard, the Expert Panel on Equalization and Territorial Formula Financing set up by the federal government and chaired by Al O'Brien, indicated in its 2006 report:

> [...] the concept of a fixed pool runs counter to the fundamental nature of Equalization–that it is intended to respond to changes in fiscal capacity of the provinces, rather than acting as a fixed entitlement over time. Establishing a fixed pool with a growth track divorces the Equalization program from the actual financial situation in provinces and the overall need for Equalization over time. (page 44 of the O'Brien Report)[5]

Since the fall of 2008, Québec has sought a return to an equalization program based on a fair formula and sound principles, so that the program can play its proper role.

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5 Source: *Achieving a National Purpose: Putting Equalization Back on Track.* Expert Panel on Equalization and Territorial Formula Financing, Ottawa, 2006.

### 3.3.2 Expenditure adjustments

Budgetary expenditure includes program spending and debt service.

Budgetary expenditure is adjusted upward by $200 million in 2009-2010 and by $288 million in 2010-2011.

#### ❑ Program spending

##### ■ 2009-2010

At the time of the last budget, the program spending objective was set at $59 989 million in 2009-2010, an increase of 4.5% compared to the preliminary results for 2008-2009.

In the *Update on Québec's Economic and Financial Situation,* the objective for 2009-2010 is increased by $150 million, to $60 139 million, to better deal with the economic situation. This amount will fund the increase, from $1.2 billion to $2.0 billion, in the *Renfort* program's envelope, which has been more successful than expected and is helping support the economy and employment.

Despite the $150-million rise in 2009-2010, the effect of the one-time items that increased spending in 2008-2009 necessarily is to reduce the rate of growth of spending in 2009-2010.

— Consequently, forecast spending growth in 2009-2010 is adjusted from 4.5% to 2.7%, even though the amount of spending is higher than in the budget.

Accordingly, over the period from 2008-2009 to 2009-2010, average annual growth in spending will be 4.7%, a rate equivalent to the 4.6% forecast at the time of the 2009-2010 Budget.

##### ■ 2010-2011

For 2010-2011, the program spending objective is raised by $170 million, to $62 049 million. Forecast spending growth is maintained at 3.2%, a rate compatible with economic growth and taxpayers' ability to pay.

— In addition to the 2009-2010 recurrence, this amount includes $20 million for additional resources for Revenu Québec so it can achieve tax recovery goals imposed by the government.

TABLE 29

**Adjustments to the program spending objective since the 2009-2010 Budget**
(millions of dollars)

| | 2008-2009 | 2009-2010P | 2010-2011P |
|---|---|---|---|
| **PROGRAM SPENDING OBJECTIVE OF THE 2009-2010 BUDGET** | **57 400** | **59 989** | **61 879** |
| *% change* | *4.7* | *4.5* | *3.2* |
| | | *4.6* | |
| 2008-2009 close | | | |
| - Trust relating to the Îlot Voyageur and conditional grant to UQAM | 265 | — | — |
| - Expenditures relating to the recognition of various items | 637 | — | — |
| - Other adjustments | 248 | — | — |
| **Subtotal** | **1 150** | **0** | **0** |
| Adjustments | | | |
| - Financing measures for businesses: increase in the *Renfort* program from $1.2 billion to $2.0 billion | — | 150 | 150 |
| - Additional resources to fight tax evasion and avoidance | — | — | 20 |
| **Subtotal** | **0** | **150** | **170** |
| **Total adjustments** | **1 150** | **150** | **170** |
| **PROGRAM SPENDING OBJECTIVE, FALL 2009** | **58 550** | **60 139** | **62 049** |
| *% change* | *6.8* | *2.7*[1] | *3.2* |
| | | *4.7* | |

P: Projections.
1 Excluding the adjustments of $1 150 million made to program spending in 2008-2009 since March 19, 2009, the growth rate of program spending in 2009-2010 stands at 4.8%.

## ❑ Debt service of the Consolidated Revenue Fund

Compared to the forecast last March, debt service is adjusted upward by $50 million in 2009-2010 and $118 million in 2010-2011. These adjustments are attributable, in particular, to higher financial requirements stemming from higher deficits than forecast.

## ❑ Reduce the relative weight of spending in the economy

In the 2009-2010 Budget, the government maintained the increase in program spending in order to get through the economic slowdown. Because of the contraction in GDP, the relative weight of program spending in the economy should amount to 19.9% in 2009-2010.

In the years ahead, disciplined spending management will result in a gradual reduction of its relative weight in the economy.

— As of 2010-2011, the share should decline by 0.1 percentage point, to 19.8%.

CHART 44

**Program spending**
(as a percentage of GDP)

Note: Forecasts for 2009-2010 and 2010-2011.

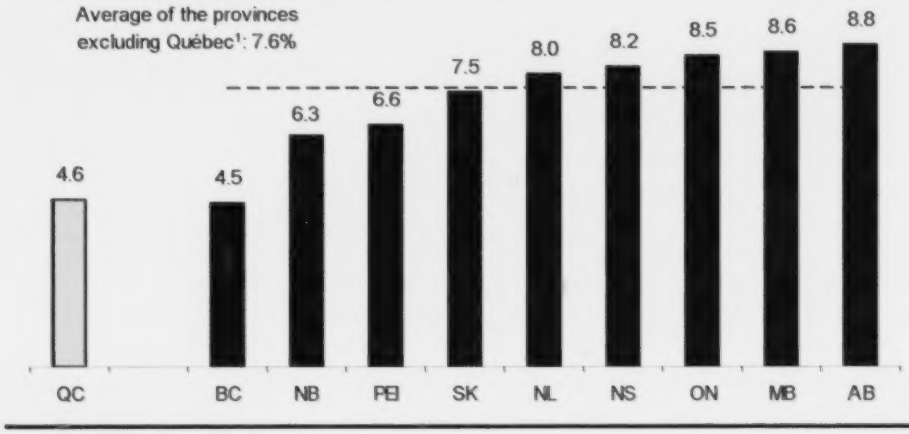
## ❑ Budgetary discipline that ranks Québec among the best

A comparison with the other provinces in Canada highlights the discipline with which Québec manages its spending. In fact, next to British Columbia, Québec is the province with the lowest growth in its program spending over the last seven years.

— By comparison, average annual growth in program spending stands at 7.6% for the Canadian provinces as a whole, excluding Québec.

CHART 45

**Average annual growth in program spending from 2003-2004 to 2009-2010**
(average annual percentage)




Note: Forecasts for 2009-2010.
1 Weighted average.

## ❑ The government's action in its essential missions

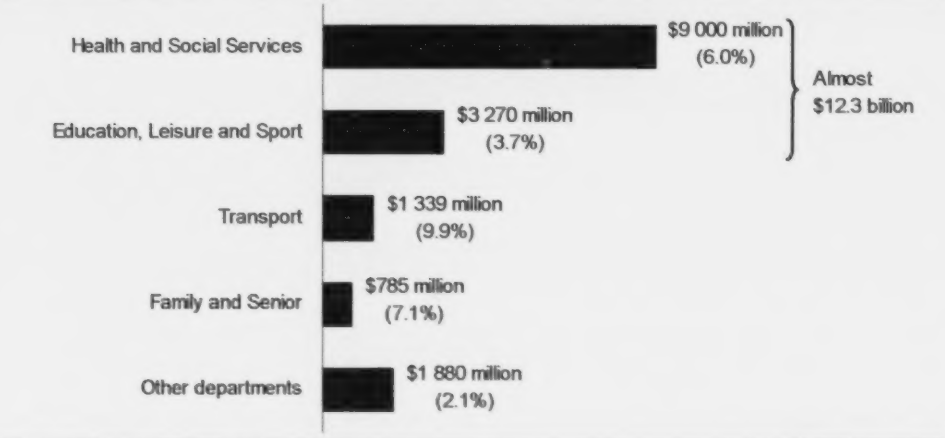
The government continues to invest in its essential missions, including health and education. From 2003-2004 to 2009-2010, average annual spending in health and education will rise by 6.0% and 3.7% respectively.

In all, since 2003, the government has added nearly $12.3 billion to the health and education budgets, i.e. $9.0 billion and $3.3 billion respectively.

— On their own, these expenditures account for over 75% of the increase in program spending since 2003-2004.

CHART 46

**Increase in program spending from 2003-2004 to 2009-2010**
(dollars and average annual percentage growth)




Note: Forecasts for 2009-2010.

## 3.4 The revised financial framework

The following table shows the results for fiscal year 2008-2009 and the government's financial projections for the current fiscal year and the next.

The real results of the public accounts for 2008-2009 show a deficit of $1.3 billion. Nonetheless, as stipulated in the budget last March, the budget is balanced for the purposes of the Balanced Budget Act by drawing from the stabilization reserve accumulated since 2006-2007.

Including all the adjustments described earlier, the budget deficits forecast for 2009-2010 and 2010-2011 are adjusted upward to $4.7 billion per year, reflecting the effect of the recession on public finances.

— In view of the ongoing uncertainty in the economic situation, the government is incorporating a $300-million provision for revenue shortfalls in 2009-2010 in its financial framework.

— As of 2010-2011, the deficit includes measures totalling $1.1 billion as part of the Plan to return to balanced budgets.

Overall, the government's budgetary revenue should amount to $62.0 billion in 2009-2010, down 1.4% compared to 2008-2009. Of this amount, own-source revenue accounts for $46.9 billion and federal transfers, $15.1 billion. For 2010-2011, budgetary revenue is expected to reach $63.6 billion, up 2.5%.

Budgetary expenditure is expected to hit $66.3 billion in 2009-2010 and $68.8 billion in 2010-2011. Of this amount, program spending will total $60.1 billion in 2009-2010 and $62.0 billion in 2010-2011.

Lastly, debt service is expected to amount to $6.2 billion in 2009-2010 and $6.8 billion in 2010-2011.

TABLE 30

## Summary of adjusted budgetary transactions – Fall 2009

(millions of dollars)

| | 2008-2009 | 2009-2010P | 2010-2011P |
|---|---|---|---|
| **BUDGETARY TRANSACTIONS** | | | |
| Own-source revenue[1] | 48 893 | 46 869 | 48 619 |
| *% change* | *–1.2* | *–4.1* | *3.7* |
| Federal transfers | 14 023 | 15 156 | 14 966 |
| *% change* | *2.9* | *8.1* | *–1.3* |
| **Total budgetary revenue** | **62 916** | **62 025** | **63 585** |
| *% change* | *–0.3* | *–1.4* | *2.5* |
| Program spending | – 58 550 | – 60 139 | – 62 049 |
| *% change* | *6.8* | *2.7* | *3.2* |
| Debt service | – 6 504 | – 6 154 | – 6 764 |
| *% change* | *–7.4* | *–5.4* | *9.9* |
| **Total budgetary expenditure** | **– 65 054** | **– 66 293** | **– 68 813** |
| *% change* | *5.2* | *1.9* | *3.8* |
| **Net results of consolidated entities** | **880** | **155** | **369** |
| Provision for revenue shortfalls | — | – 300 | — |
| Plan to return to balanced budgets | — | — | 1 065 |
| **DEFICIT** | **– 1 258** | **– 4 413** | **– 3 794** |
| **BALANCED BUDGET ACT** | | | |
| Deposit of dedicated revenues in the Generations Fund | – 587 | – 715 | – 881 |
| Stabilization reserve | 1 845 | 433 | |
| **BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT** | **0** | **– 4 695** | **– 4 675** |
| *As a % of GDP* | — | *–1.6* | *–1.5* |

P: Projections.
1 Including government enterprises.

## ❑ Stabilization reserve

Substantial budgetary surpluses were achieved in 2006-2007 and 2007-2008 as a result of which it was possible to accumulate $2.3 billion in the stabilization reserve. This reserve was used to keep the budget balanced in 2008-2009 for the purposes of the Balanced Budget Act.

— The balance of the reserve, $433 million, will partially offset the budget deficit expected in 2009-2010.

TABLE 31

**Stabilization reserve[1]**
(millions of dollars)

| | 2006-2007 | 2007-2008 | 2008-2009 | 2009-2010P |
|---|---|---|---|---|
| Allocation | 1 300 | 1 201 | 109 | — |
| Use | | | | |
| - Deposit to the Generations Fund | — | – 200 | – 132 | — |
| - Maintaining a balanced budget in 2008-2009 and reducing the deficit in 2009-2010 | — | — | – 1 845 | – 433 |
| **Total** | **1 300** | **1 001** | **– 1 868** | **– 433** |
| **BALANCE OF THE STABILIZATION RESERVE AT THE END OF THE YEAR** | **1 300** | **2 301** | **433** | **0** |

P: Projections.
1 In accordance with the provisions of Bill 40 (S.Q. 2009, c. 38), assented to on September 21, 2009, the government uses a stabilization reserve to improve its multi-year budgetary planning and enable payment of amounts to the Generations Fund.

## ❑ Provision for revenue shortfalls in 2009-2010

Moreover, in view of the economic situation, the financial position of all governments has changed rapidly over the past year. In the interests of prudence, the financial framework includes a $300-million provision for revenue shortfalls in 2009-2010.

## 3.5 Detailed results

The following tables provide detailed information on the major items that compose the government's adjusted financial framework in relation to the revenue and the expenditure of the Consolidated Revenue Fund.

TABLE 32

### Revenue of the Consolidated Revenue Fund
(millions of dollars)

| | 2008-2009 | 2009-2010[P] | % change | 2010-2011[P] | % change |
|---|---|---|---|---|---|
| **Own-source revenue** | | | | | |
| Own-source revenue excluding government enterprises | | | | | |
| – Personal income tax | 17 949 | 17 753 | – 1.1 | 18 776 | 5.8 |
| – Contributions to the Health Services Fund | 5 631 | 5 597 | – 0.6 | 5 788 | 3.4 |
| – Corporate taxes | 4 176 | 3 141 | – 24.8 | 3 343 | 6.4 |
| – Consumption taxes | 13 403 | 13 284 | – 0.9 | 13 769 | 3.7 |
| – Other | 2 721 | 2 362 | – 13.2 | 2 413 | 2.2 |
| **Subtotal** | **43 880** | **42 137** | **– 4.0** | **44 089** | **4.6** |
| Revenue from government enterprises | 5 013 | 4 732 | – 5.6 | 4 530 | – 4.3 |
| **Total own-source revenue** | **48 893** | **46 869** | **– 4.1** | **48 619** | **3.7** |
| **Federal transfers** | | | | | |
| Equalization | 8 028 | 8 355 | 4.1 | 8 244 | – 1.3 |
| Health transfers | 3 740 | 4 159 | 11.2 | 4 279 | 2.9 |
| Transfers for post-secondary education and other social programs | 1 267 | 1 435 | 13.3 | 1 431 | – 0.3 |
| Other programs | 988 | 1 207 | 22.2 | 1 012 | – 16.2 |
| **Total federal transfers** | **14 023** | **15 156** | **8.1** | **14 966** | **– 1.3** |
| **BUDGETARY REVENUE** | **62 916** | **62 025** | **– 1.4** | **63 585** | **2.5** |

P Projections

TABLE 33

### Expenditure of the Consolidated Revenue Fund
(millions of dollars)

| | 2008-2009 | 2009-2010[P] | % change | 2010-2011[P] | % change |
|---|---|---|---|---|---|
| Program spending | 58 550 | 60 139 | 2.7 | 62 049 | 3.2 |
| Debt service | 6 504 | 6 154 | – 5.4 | 6 764 | 9.9 |
| **BUDGETARY EXPENDITURE** | **65 054** | **66 293** | **1.9** | **68 813** | **3.8** |

P Projections